

DECEMBER 1989

STATE AND LOCAL GOVERNMENT OPPORTUNITY ANALYSIS



Preface:

Important Note to Readers of this Report

Readers of this report should be aware that this is only one of thirteen vertical industry reports developed by INPUT for Moore IDS. These vertical reports, in turn, are followed by a final cross-industry report that serves the central mission of this project: to provide market opportunity recommendations that will help Moore IDS to focus strategically on a very limited number of high-value opportunities—whether within a single industry or across several.

Therefore, readers of this report should keep in mind several considerations while reviewing the findings presented here:

- To serve the central mission of helping Moore IDS to achieve strategic focus on a limited number of market opportunities, INPUT has applied a tight screening process to the applications examined in each vertical industry. The selection criteria targeted mission-critical, high frequency, repetitive variable-imaging applications that would represent an ongoing base of predictable revenue, as opposed to the current mix of ad hoc, project-oriented overflow work with peaks and valleys of a less predictable nature.
- Due to this tight screening process, readers may find that these vertical reports fail to mention certain applications, even though they represent currently viable Moore IDS revenue sources.
- Finally, recommendations presented in this single-industry report must be recognized by readers to be somewhat out of context:

- An opportunity that looks excellent—relatively—within a single industry may turn out to be dwarfed by applications in other industries.
- An application that looks to be of minimal attractiveness in a single industry may prove to be closely paralleled in several other industries—in such a way that together they constitute a preeminent cross-industry opportunity.

INPUT discusses such findings in the cross-industry report. Note that these cross-industry recommendations are the primary objective of this project, and thus they supersede those of the individual vertical market reports. The final cross-industry report should be examined for such perspective by any reader of this single-industry report.

It is hoped that this note will help readers place these findings in the proper perspective, especially in cross-referencing this single-industry viewpoint with the final report's cross-industry findings and recommendations.



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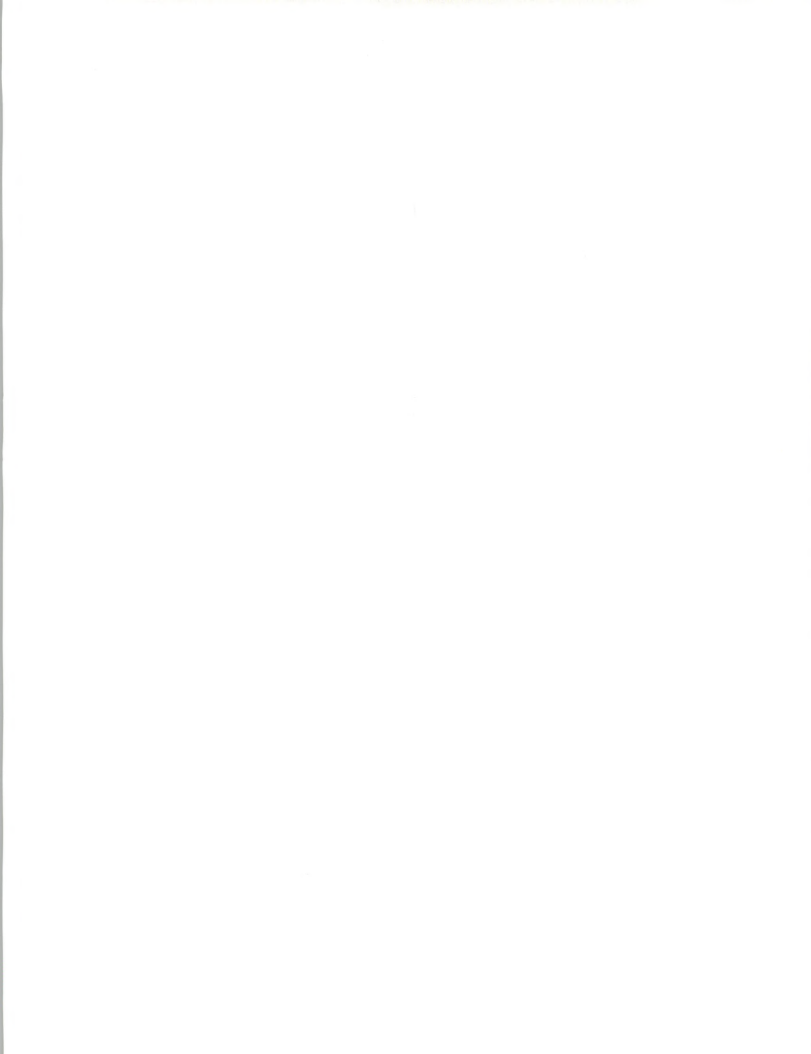
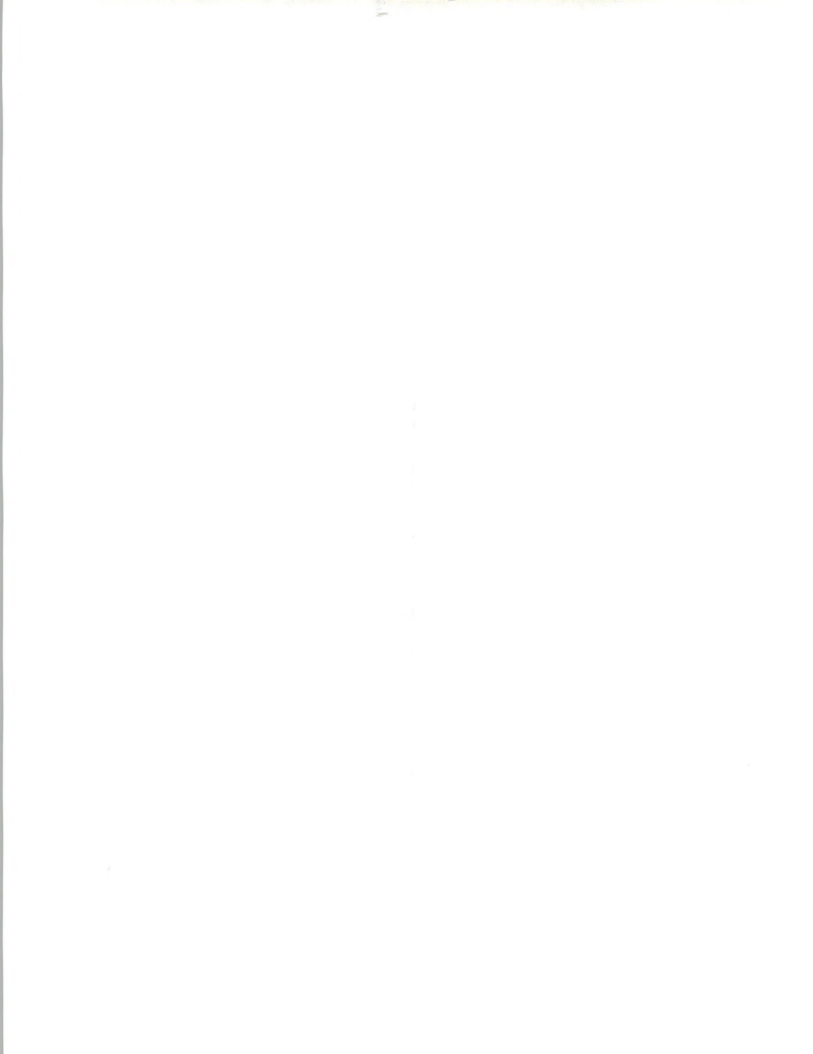


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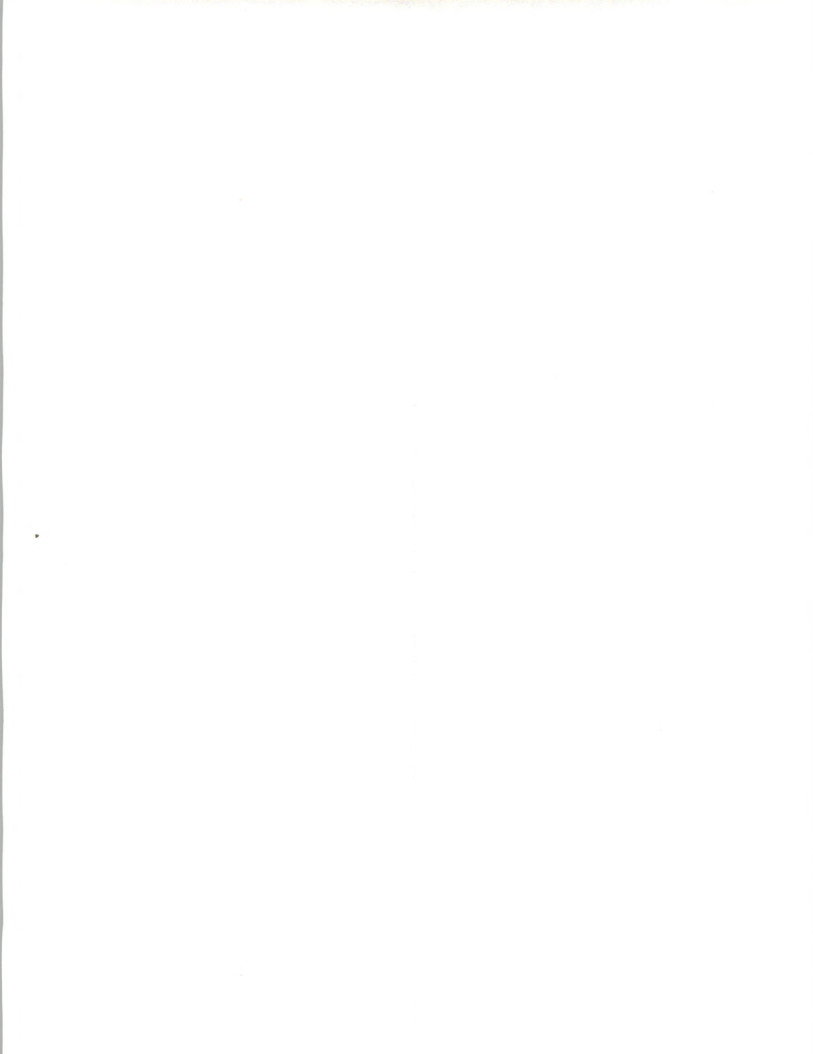
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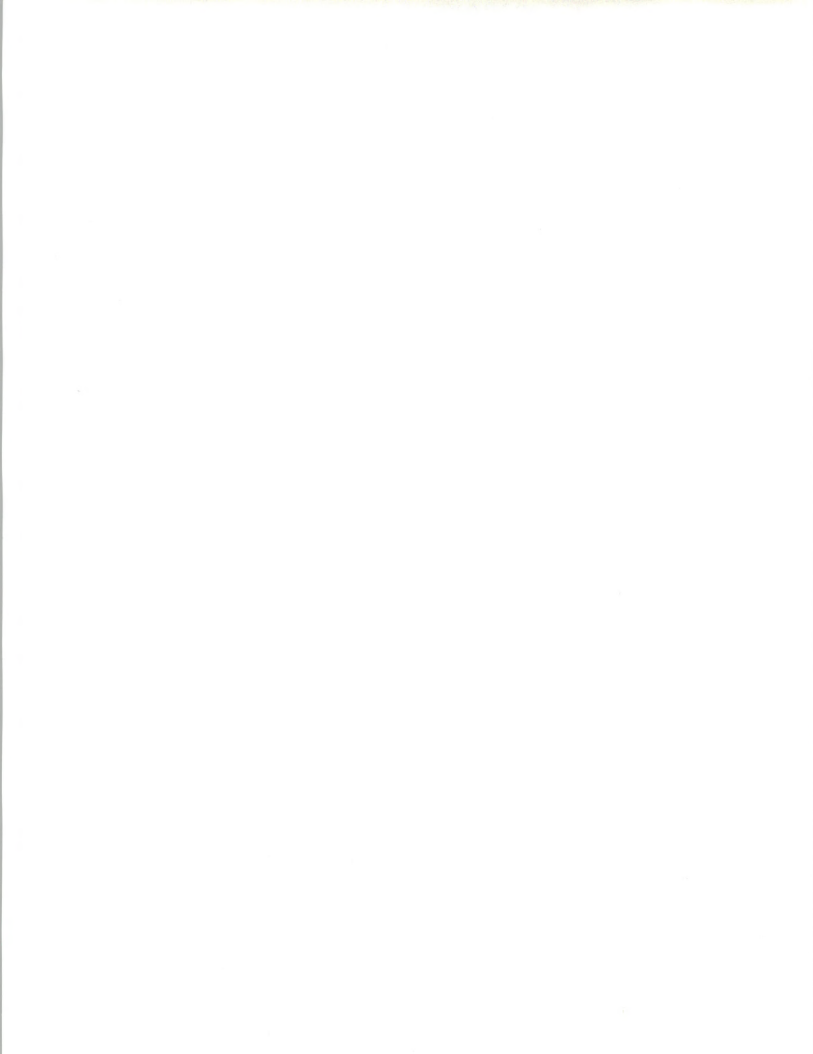
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Introduction







Introduction

A

Objectives

INPUT has conducted this research to meet objectives agreed upon with Moore Business Forms' Information Distribution Services Division (Moore IDS), as shown in Exhibit I-1.

EXHIBIT I-1

State and Local Government: Key Research Objectives

- Evaluate business opportunities for basic and enhanced services
- Achieve focus on leading opportunities
- Assess sales and delivery requirements
- Provide data for cross-industry evaluation

Moore IDS wishes to achieve focus on a limited number of key opportunities within each industry studied. This focus will provide a more proactive (rather than reactive) marketing thrust, and will help to limit the planning and investment required to develop new mechanisms—such as equipment, facilities, and other technology—that are necessary to sell and deliver additional services. Looking ahead to INPUT's analysis of opportunities in a wide range of target industries, this research also serves to gather data that can be cross-referenced among industries at a later date.

To most effectively meet the objective of providing Moore IDS with a comprehensive evaluation of state and local government business opportunities, a fundamental distinction is made between basic and enhanced application service opportunities in Exhibit I-2.

EXHIBIT I-2**Application/Service Type Definitions****Basic Services** ("Moore IDS Business today")

- Variable-image printing or embossed cards plus related mailing services such as stuffing, sealing, metering, sorting and post office delivery

Enhanced Services ("Moore IDS Future Business")

- Basic services, as defined above, when integrated with any value-added front-end or back-end services, typically of information services content (e.g., data base management) but also including other business services (e.g., lock box)

and/or

- All-electronic solutions as a replacement for, or supplement to, paper-based business communications (e.g., electronic data interchange)

B**Scope**

Agreements between INPUT and Moore IDS regarding the scope of the research to be conducted included the state and local government market segments to be covered and the size of jurisdictions to be interviewed, as shown in Exhibit I-3.

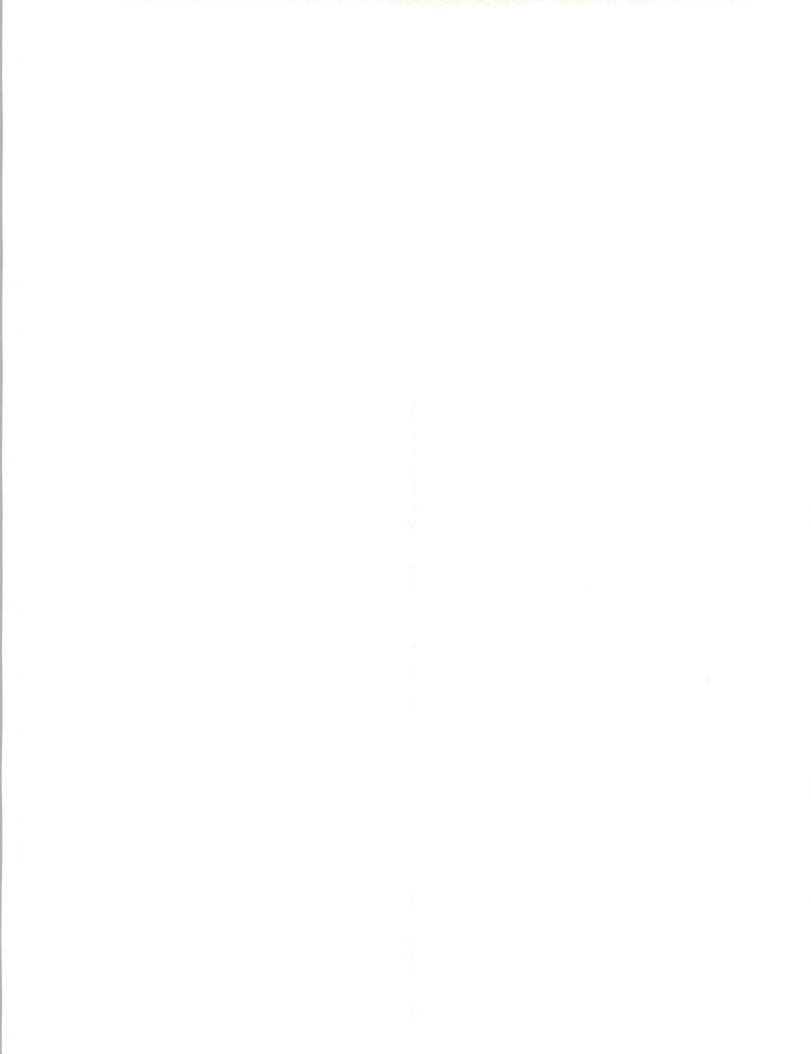
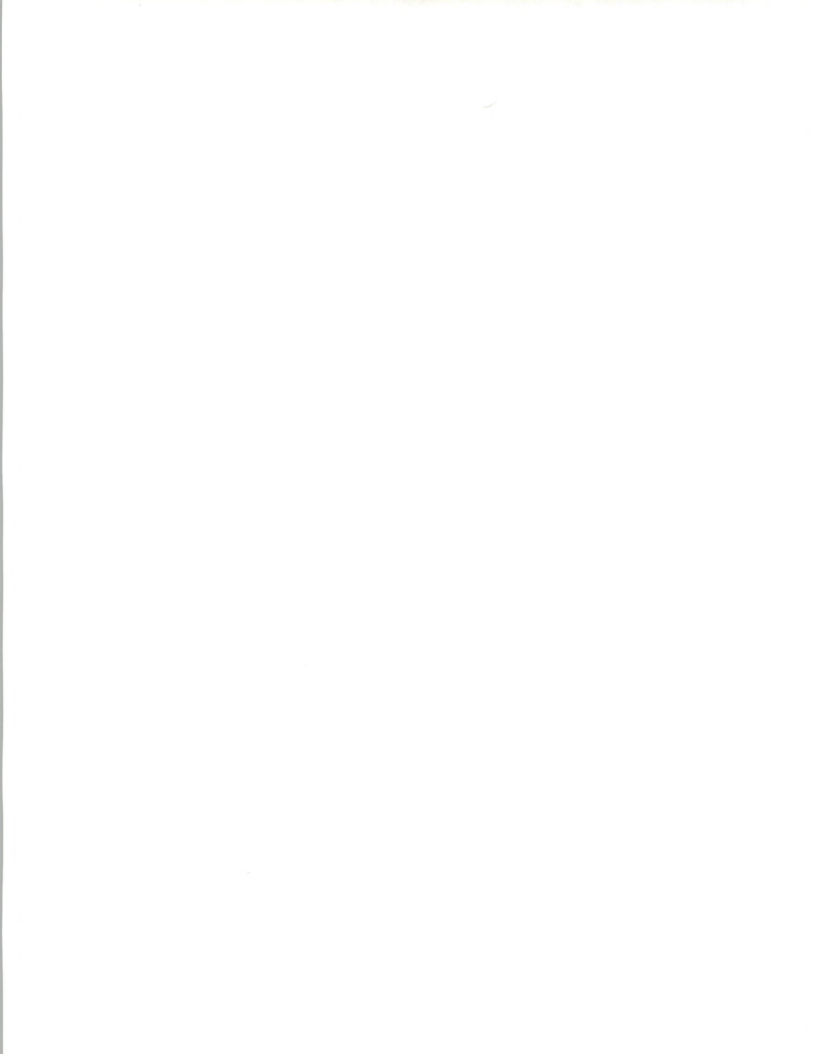


EXHIBIT I-3

**State and Local Government:
Research Scope**

- Market segments covered
 - State departments
 - Administration (for an overview of mission-critical applications)
 - Income taxes
 - Employers' wage taxes
 - Sales taxes
 - Motor vehicles
 - Disbursements
 - County and city departments
 - Administration (for an overview of mission-critical applications)
 - Personal property taxes
 - Traffic citations
 - Other: voter registration, social services, collections
- Market segments excluded
 - Counties and cities with populations below 100,000
- Size of jurisdiction contacted
 - Departments within representative and large states
 - Departments within counties and cities with populations of 100,000, 500,000, or greater than 1,000,000



The state and local government vertical market, unlike most other vertical markets, is very fragmented. This report will first examine the characteristics of state governments and, subsequently, local governments.

1. State Governments

a. Selection of State Departments and Applications

Each department within state government is virtually autonomous, the mission-critical applications are different, and the business mailings are different.⁶⁰ Because each state has between 30 and 50⁶¹ major departments, the first step in determining which departments are most critical was to examine the major sources of revenues and major recipients of expenditures, as shown in Exhibit I-4. INPUT assumed that departments that contributed greater amounts of revenue or spent greater amounts of revenue would be considered most critical to the state.

From Exhibit I-4 it appears that federal funds represent the single largest source of revenue (18%). State application of these funds is primary in welfare, medical, education and highway construction, and is considered in this report. Federal government business mailing applications will be examined in another vertical report.

Sales, income, and excise taxes, when taken together, comprise an even more significant portion (34%) of the revenues for state governments. Of these, sales and individual income taxes (14% and 13%, respectively) are the most important.

Revenues are expended primarily on education (32%) and welfare (16%), followed by highway projects (8%), health concerns (7%), employee retirement (5%) and unemployment insurance (3%).

The second step in determining which departments are most critical was to ascertain if there were criteria, other than revenues and expenditures, which determine the importance of a department to state governments. To do this, high-level administrators in selected states were contacted and asked to name the departments with the most critical mailing operations in the state.

Four types of departments were named: Department of Revenue and Taxation (income taxes, sales tax, and corporate taxes), Department of Motor Vehicles, Department of Employment Services (unemployment, disability, state employees' wages and retirement fund), and the Controller's Office (disbursements). One state named an additional department—Elections Administration.

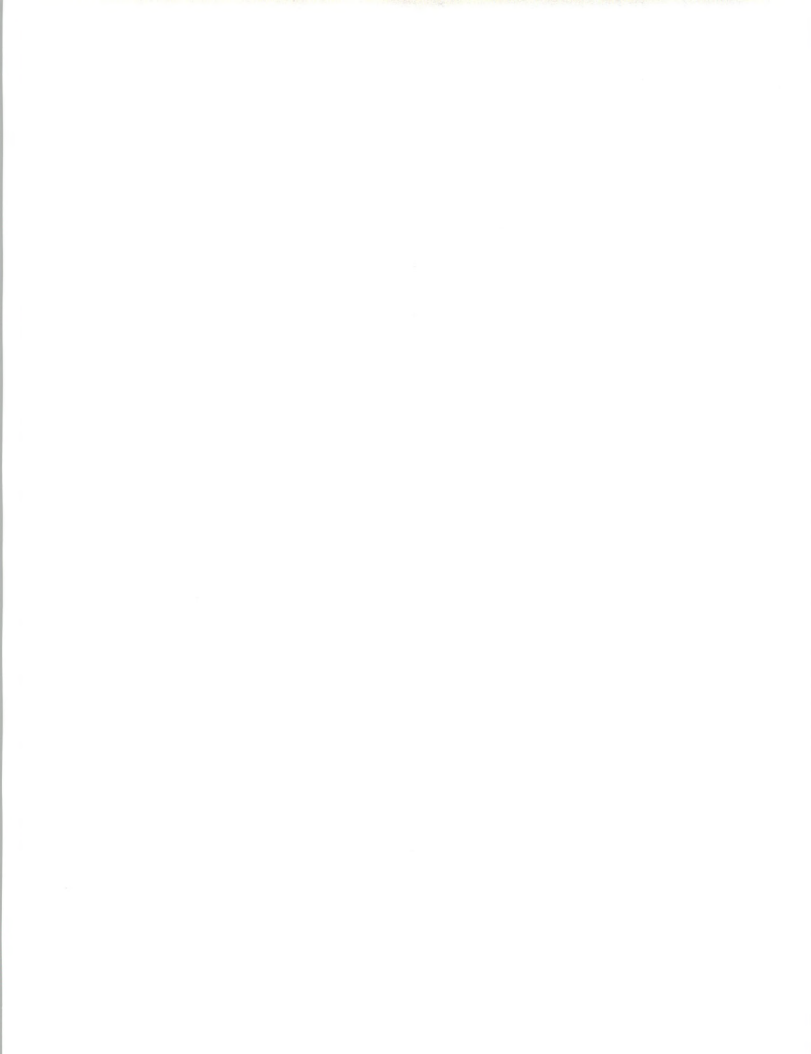


EXHIBIT I-4

**State and Local Government:
Selected Revenues and Expenditures
for State Governments, 1986**

| Selected Sources of Revenues | Percent of Total Budget | Surveyed |
|---------------------------------------|----------------------------|----------|
| Federal Government Funds | 18 | no* |
| Taxes | | |
| -Sales Tax | 14 | yes |
| -Individual Income | 13 | yes |
| -Corporate Income | 3 | yes |
| -Fuel, Alcohol, Tobacco | 4 | no |
| Employment Taxes | | |
| -State Employees Retirement | 11 | no |
| -Unemployment | 3 | yes |
| Motor Vehicle licenses, registrations | 1 | yes |
| TOTAL | 67 | |

* Covered in Federal Government Vertical Market Report

| Selected Sources of Revenues | Percent of Total Budget | Surveyed |
|------------------------------|----------------------------|----------|
| Education | 32 | no** |
| Welfare | 16 | yes |
| Highway Funds | 8 | no |
| Health | 7 | no |
| Employee Retirement | 5 | no |
| Unemployment Insurance | 3 | yes |
| TOTAL | 71 | |

** Covered in Education Vertical Market Report

Source: U.S. Bureau of Census Historical Statistics on Governmental Finances and Employment (GS82(6)-4); State Government Finances, Series GF, 3, Annual

Based upon the information gathered from high-level officials and Exhibit I-4, four state government departments were selected for the survey: Department of Taxation (personal income taxes, corporate taxes, and sales taxes), Department of Motor Vehicles, Controller's Office (disbursements), and Department of Employment (unemployment).

A wide range of business communication applications was considered during interviews. Each department listed a unique set of mission-critical applications. These applications were consistent for departments with similar charters, across states, and are listed in Exhibit I-5.

EXHIBIT I-5

**State and Local Government:
State Government: Mission-Critical Applications**

| Department | Application |
|-----------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------|
| Department of Revenue | Income tax return, delinquency notices |
| Employment Development Department | Employer quarterly contribution and wage report, delinquency notices, monthly or quarterly deposit forms, unemployment and disability checks |
| Board of Equalization | Sales tax return, delinquency notices |
| Department of Motor Vehicles | Driver's license renewal, car registration renewal, ownership certificate, delinquency notices, suspension notices |
| Controller's Office | State employee payroll checks, state employee retirement checks, income tax refunds, medi-care, state vendor payments, lottery checks |

It should be noted that, unlike departments within private companies, each state is organized differently and tasks are assigned to different departments. For example, dispersion of lottery and race track revenues may occur from the Controller's Office in one state, the Department of Revenue in a second state, and the Department of Taxation in a third.

Also, divisions within departments may be so fragmented that one operation may be split among several divisions, with full responsibility resting only at the top of the organizational pyramid, at the department secretary's level. For example, within the Employment Development Department in California, one department is responsible for the front-end operations of processing unemployment checks, while two others are responsible for the printing/mailing operations and back-end operations, respectively. This fragmentation is also seen at the local government level.

b. Selection of States to Be Surveyed

Moore IDS and INPUT agreed that because of the breadth of departments which were critical to state operations, two states would be selected and surveyed in depth, rather than surveying many states in a cursory fashion.

In order to select the two states which were surveyed, eleven criteria were applied with equal weighting to determine which states were most representative of the U.S. population, social demographics, per capita expenditures, and revenues (see Exhibit I-6).

Based upon these characteristics, Connecticut, Maryland, Minnesota, Ohio, and Washington were most representative of the fifty states. Connecticut was randomly selected among the five as the most representative state on a per capita characteristics basis for this survey.

In addition to selecting one extra "representative" state for the survey, one "large" state was selected. There are four large states (California, Florida, New York, and Texas) which are *not* representative of the other 50 states. They encompass almost a third of the population, collect almost half of the state income taxes, and distribute almost half of the welfare funds. In addition, California and Florida are two bellweather states which launch a majority of new legislative and lifestyle trends. The large states are represented in the survey by selecting the state of California.

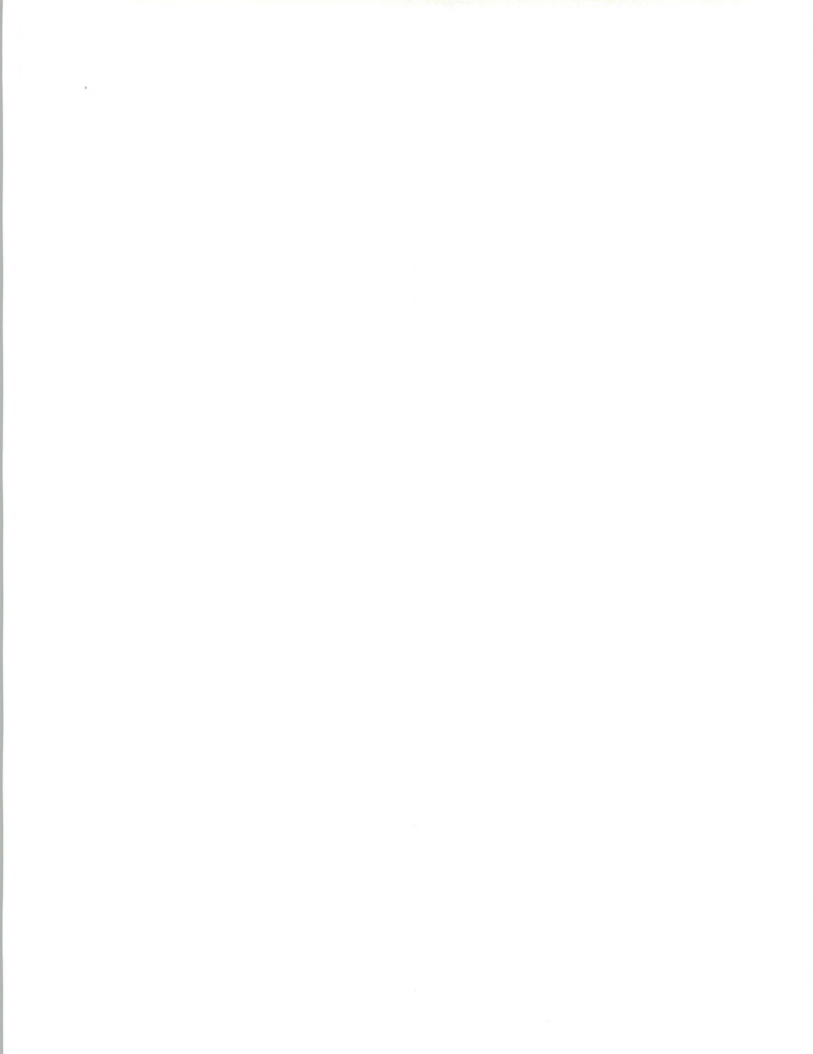


EXHIBIT I-6

State and Local Government: Criteria for Selection of States Surveyed

| General Criteria | Specific Criteria |
|----------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Population characteristics | Population Percent population over 65 Population over 18 |
| Social characteristics | Percent population receiving state or federal aid Per capita expenditures for state and local welfare Percent long term unemployment Crimes per capita |
| Income characteristics | Per capita state income taxes Per capita property taxes Number of property owners |
| Other characteristics | Vehicle registrations per 1,000 population |

2. Local Governments

a. Selection of Local Government Departments and Applications

A similar procedure was followed to select local jurisdictions for the survey. First, counties and cities were divided into seven categories based upon population (see Exhibit I-7). The sources and dispersion of revenues were examined for these categories of local governments. It was assumed that departments which contributed greater amounts of revenue and departments which spent greater amounts of revenues would be considered critical to the jurisdiction.

From Exhibit I-7 it appears that intergovernmental funds (state and federal) represent the largest single source of revenue (26% to 35%). This set of business mailing applications will be examined in another vertical report.

EXHIBIT I-7

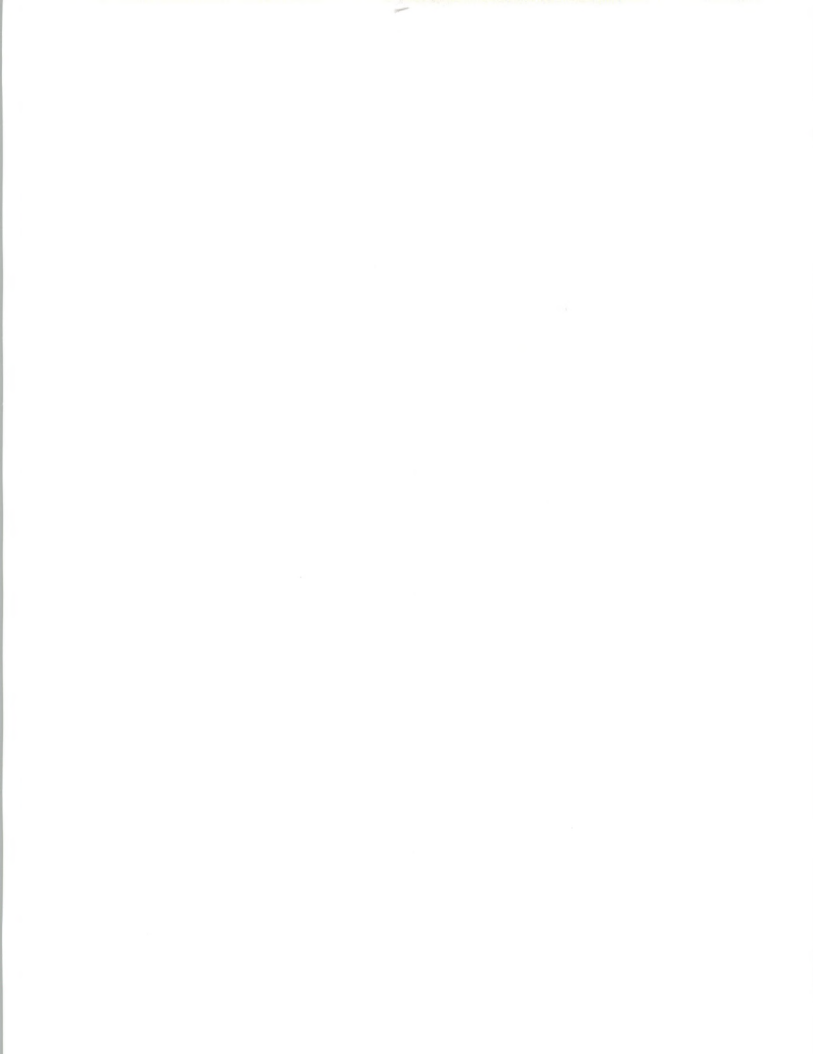
**State and Local Government:
City Governments—Finances by Population Size Groups: 1986
Percent Distribution**

| Item | Population of City (in thousands) | | | | | | | All Cities | All Counties |
|-----------------|-----------------------------------|------------|-------------|-------------|-------------|--------------|-------|---------------|-----------------|
| | <50 | 50- 100 | 100- 200 | 200- 300 | 300- 500 | 500- 1000 | 1000+ | | |
| Revenues* | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 |
| Property Tax | 22 | 26 | 25 | 17 | 17 | 19 | 19 | 21 | 27 |
| Sales Tax | 11 | 12 | 12 | 13 | 15 | 10 | 13 | 12 | — |
| Other Tax | 5 | 5 | 4 | 7 | 8 | 11 | 15 | 9 | 9 |
| Intergovernment | 27 | 26 | 30 | 32 | 25 | 35 | 35 | 30 | 38 |
| Current Charges | 18 | 17 | 16 | 18 | 17 | 13 | 10 | 15 | 26 |
| Expenditures* | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100** |
| Police/Fire | 21 | 22 | 20 | 18 | 20 | 16 | 14 | 18 | 5 |
| Education | 5 | 11 | 14 | 17 | 7 | 12 | 15 | 11 | 14 |
| Sanitation | 15 | 11 | 11 | 9 | 12 | 10 | 7 | 11 | — |
| Highways | 13 | 10 | 9 | 8 | 8 | 5 | 4 | 8 | 9 |
| Health | 5 | 5 | 4 | 4 | 4 | 8 | 8 | 6 | 17 |
| Welfare | 1 | 1 | 2 | 2 | 1 | 7 | 15 | 5 | 15 |
| Housing | 3 | 6 | 5 | 5 | 6 | 5 | 6 | 5 | — |
| Interest | 8 | 8 | 7 | 9 | 11 | 7 | 5 | 7 | 6 |

* Includes items not shown separately

** Includes 7% general control, 3% financial administration, 2% public buildings, 5% corrections, 3% parks and recreation and natural resources

Source: US Bureau of Census, *City Government Finances*, series GF86, No. 4, annual



The property taxes and sales taxes together comprise an equally significant portion (29% and 38%) of the revenues for city and county governments. In terms of expenditures, police and fire protection cost the localities between 14% and 22% of their budgets. Education and sanitation each comprised about 11% of the budget, and highways approximately 8%. The one category that seemed to differ between small and large jurisdictions was welfare (1% for small cities, 15% for large).

The second step in determining which departments were most critical was to ascertain if there were criteria, other than revenues and expenditures, which determine the importance of a department to local governments. To do this, high level administrators in selected cities and counties were contacted and asked to name the departments with the most critical mailing operations in the jurisdiction. The departments nominated by all three jurisdictions were property tax, assessment, and municipal court. The largest jurisdiction also named the Department of Revenue (billings division), Department of Social Services, and the Registrar of Voters.

Based upon the information gathered from high level officials and Exhibit I-7, the local government departments which were contracted were Personal Property Taxes and Municipal Court (traffic and parking citations). In addition, the Registrar of Voters, the Department of Social Services and the Department of Revenue (billings) were also contacted in the largest jurisdiction.

As was the case with state governments, divisions within local government departments may be so fragmented that one operation is split among several divisions, with full responsibility resting only at the top of the organizational pyramid. Therefore, it sometimes required two interviews to collect information about one function.

A wide range of business communication applications was considered during interviews. Each department listed a unique set of mission-critical applications. These applications were consistent for departments with similar charters across cities and counties. They are listed in Exhibit I-8.

b. Selection of Local Governments To Be Surveyed

In order to test the assumption that business mailing needs differed significantly based upon size of jurisdiction, different size jurisdictions were surveyed. The proportional revenues and expenditures between local governments of different sizes was subtle. Therefore the seven population categories listed in Exhibit I-7 were collapsed into four categories:

EXHIBIT I-8

**State and Local Government:
Local Government: Mission-Critical Applications**

| Department | Application |
|------------------------------------|---------------------------------------------------------------------------------------------------------------|
| Assessment/personal property taxes | Appraisal notice, review board notice (protest appraisal), property tax bill, delinquency notices |
| Traffic citations | First court notice, delinquency court notices, warrants, drivers license suspensions, overdue parking notices |
| Voter registration | Sample ballots, absentee ballots |
| Social services | Warrants and checks |
| Collections | Monthly statements, delinquency notices |

- under 100,000
- 100,000 to 499,999
- 500,000 to 999,999
- over 1 million

Counties and cities with populations under 100,000 were eliminated based upon a joint decision that business mailing volumes would be too small to be attractive to Moore IDS.

One jurisdiction within each category was randomly chosen: Eugene, Oregon (105,000), Austin Texas (460,000), and Santa Clara County, California (1,400,000). This selection process may have biased INPUT's sizing of the property tax notice opportunity size due to frequency of mailing assumptions drawn from these three cities. Moore-IDS may choose to increase the estimate where appropriate.

C**Methodology**

To conduct this research, INPUT applied a standard, proven methodology for interview-based custom research shown in Exhibit I-9.

EXHIBIT I-9**State and Local Government:
Research Methodology**

- In-person informational and test interviews
- Development of draft telephone questionnaire
- Telephone discussion with Moore IDS state and local government marketing manager
 - Vertical market report outline
 - Ideal application profile
 - Industry segmentation
 - Draft questionnaire revision and development of second questionnaire for high-level interviews
 - Target interview audience and segment allocation
- Telephone interviews
 - Cold calls to find appropriate interviewee in each state or local government department
 - Networking as required to secure interviews
- Analysis and report writing

The research project began with in-person informational interviews with Moore IDS managers and test interviews with selected Moore IDS customers, including one state government official. These interviews were conducted by the project manager. The result was a first-draft telephone interview questionnaire, which was revised with the help of the Moore IDS state and local government marketing manager.

That conversation also set the stage for the telephone-interviewee sourcing methodology. First, a cold call was made to the general information number for the jurisdiction. This call requested direction to the appropriate party within each of several different departments. Usually three to five calls to a given jurisdiction were required to reach a knowledgeable

operator. Once a Secretary's (of a state) or Director's (of a local jurisdiction) name was suggested, that executive was called. The official's office usually suggested another individual who was more familiar with the day-to-day operations of data processing and mailing. Often, a network of from one to 15 people was required to locate the correct individual, with an average route covering seven people.

Interviewing Statistics

- Three state and four local government jurisdictions were contacted cold.
 - From one to seven departments within three states were contacted
 - From two to seven departments within three local jurisdictions were contacted
 - No individuals' names or references were provided by Moore IDS
 - INPUT and Moore IDS agreed that current customers would be a poor sample
- Two hundred eighty-eight calls were made
 - 24 interviews were secured
 - Two officials missed at least three scheduled appointments to answer the questionnaire—one of whom had requested and received a copy of the questionnaire in advance
 - An average of seven contacts (range: 3 to 22) were required to determine the appropriate party
 - Once the individual was identified, an average of an additional five calls (range: 2 to 17) were required to schedule an interview with the individual

Although eventually successful, this methodology was relatively expensive in terms of number of calls and time required to complete the process. Once the proper person was located, all but two public administrators were able to participate in the survey. However, because of the massive bureaucracies, most intermediate people could not refer INPUT to the proper party, even if that party eventually was located within the same department and even in the same office!

In several cases, two or even three interviews were required to collect adequate information for a single government department because job titles and tasks were narrowly defined. For example, in the California Employment Development Department (which distributes unemployment insurance, among other benefits), one interviewee was responsible for the data management of the unemployment rolls, a second person was responsible for the printing and mailing operations, and a third for back-end processing.

Although INPUT attempted to survey a representative cross-section of officials at various levels, the individuals who could provide answers to the questions were assistant managers, managers, and directors of varying size departments. These titles are not necessarily analogous to titles in private industry. In some cases, executives with the responsibilities of these government officials would be considered vice presidents in private industry. The final interviewing sample is shown in Exhibits I-10, I-11, and I-12.

Given the importance of computer printing to the variable-imaging business communications under investigation, information and administrative services and data processing are heavily represented in the interview sample.

EXHIBIT I-10

State and Local Government: Interviewing Sample

| Function | Jurisdiction | Number of Interviews |
|--------------------|---------------|----------------------|
| State | | |
| Oversight | CA, CT | 2 |
| Taxes | CA, CT, CO | 3 |
| Motor Vehicles | CA, CT (2) | 3 |
| Disbursements | CA | 1 |
| Unemployment | CA (3) | 3 |
| Subtotal | | 12 |
| Local | | |
| Oversight | SC* (2), EUG* | 3 |
| Property Taxes | SC, AUS* (2) | 3 |
| Traffic Tickets | SC, EUG, AUS | 3 |
| Voter Registration | SC | 1 |
| Social Services | SC | 1 |
| Dept. of Revenue | SC | 1 |
| Subtotal | | 12 |
| Total | | 24 |

SC=Santa Clara County, CA

EUG=Eugene, OR

AUS=Austin, TX

EXHIBIT I-11

**State and Local Government:
Categories of State Government Interviewees**

| Title | Division | Department | Juris'n. | Function |
|-----------------------------------------------|----------------------------------------------------------------------------------|---------------------------------------|----------|-------------------|
| Chief, Statewide Review and Approval | Office of Information Technology | Dept. of Finance | CA | Oversight |
| Director | Printing and Mailing Services | Dept. of Admini- strative Services | CT | Oversight |
| Business Manager | | Dept. of Revenue Services | CT | Taxes |
| Program Administrator | Information and Support Services | Dept. of Revenue | CO | Taxes |
| Programming Manager | | Board of Equalization | CA | Taxes |
| Asst. Data Processing Manager | | Dept. of Motor Vehicles | CT | Motor Vehicles |
| Assistant Director | Admin. Services Division | Dept. of Motor Vehicles | CT | Motor Vehicles |
| Program Manager | Prog. Operations Support Dept., Dept. of Mail Systems Administration | Dept. of Motor Vehicles | CA | Motor Vehicles |
| Manager | Auxiliary Services | State Controller's Office | CA | Disbursements |
| Office Manager | Office Services Group | Employment Devt. Dept. | CA | Unemployment |
| Office Manager | Cashiering Group | Employment Devt. Dept. | CA | Unemployment |
| Office Manager | Data Processing Group | Employment Devt. Dept. | CA | Unemployment |

EXHIBIT I-12

**State and Local Government:
Categories of Local Government Interviewees**

| Title | Division | Department | Juris'n. | Function |
|--------------------------------|------------------------------------|---------------------------------|--------------------------|-----------------|
| Director | Data Processing | Information Services Dept. | SC | Oversight |
| Manager | Printing and Photography Services | General Services Administration | SC | Oversight |
| Assistant Director | Systems and Programming Department | Data Processing Services | EUG | Oversight |
| Management Analyst | Tax Billing Office | Property Tax Office | SC | Prop Taxes |
| Supervisor | Administrative Services | Property Tax Dept. | AUS (county function) | Prop Taxes |
| Assistant Manager | Appraisal Services | Department of Assessments | AUS | Prop Taxes |
| Manager | Traffic Court | Municipal Court | IND | Traffic Tickets |
| Assistant Manager | Municipal Court | Department of Safety | EUG | Traffic Tickets |
| Manager | Data Processing | Municipal Court | DNVR | Traffic Tickets |
| Manager | Administrative Services | Registrar of Voters | SC | Election Admin. |
| MIS Manager | — | Department of Social Services | SC | Social Services |
| Accounting and Systems Manager | Billings Department | Dept. of Revenue | SC | Collections |

⁽¹⁾ Interview with Council of State Governments, Lexington, Kentucky.

⁽²⁾ Council of State and Local Governments, *State and Administrative Officials Classified by Function, 1987-88*, Lexington, Kentucky.



Executive Overview



II

Executive Overview

A

Methodology

INPUT conducted telephone interviews with 24 executives and managers in state and local governments. Half of the interviews were with state officials, half with local officials. Most were middle-level managers in charge of data processing or administrative departments.

Unlike most vertical markets, the state and local government sector is composed of dozens of autonomous departments, all of which have different critical applications. Given time and resource constraints, INPUT focused on the departments which had mailings that were most critical to their jurisdictions.

INPUT first determined the departments which were the major sources of revenues and those which were the major recipients of expenditures. Then, by identifying and interviewing high level administrators, the list of candidate departments was refined. Subsequently, all interviewees were asked which mailings were critical to their jurisdictions, and, by and large, confirmed the nominated departments. The state government departments contacted were

- Department of Revenue (income taxes)
- Employment Development Department (employer's quarterly wage and contribution reports)
- Board of Equalization (sales taxes)
- Department of Motor Vehicles (drivers licenses, car registrations)
- Controller's Office (disbursements)

The local government departments contacted were

- Office of Assessment and Property Taxes (personal property taxes)
- Municipal Court (traffic citations, parking tickets)
- Social Services (benefit checks)
- Department of Revenue (collect overdue bills)
- Voter Registration (sample and absentee ballots)

In addition to being a heterogeneous market, state and local government is also a fragmented market. Jobs are often so narrowly defined that two or even three interviews were required within a single department to gather information on the complete mailing process from front-end to back-end.

B

Interviewees' Attitudes

Interview results were very consistent. Interviewees were uniformly reluctant to contract mission-critical applications to outside vendors. Primary reasons cited for the reluctance were (1) need to protect sensitive information, (2) need to maintain control over large sums of revenues and expenditures, (3) current operations were running smoothly, particularly because of recent equipment upgrades such as new laser printers, and (4) concerns for job security of government workers. The first two reasons were often stated forcefully because the respondents felt deeply responsible for guarding their constituents' private information and their jurisdiction's money. They felt their jobs were the *core* business of the jurisdiction, not a peripheral function.

Few real problems with their operations were mentioned, but virtually all respondents had firm plans, or at least a wish list of improvements, concerning the updating and upgrading of equipment, increasing the physical workspace, and improving the workflow.

Future fantasies included upgrading equipment, increasing space, and automating back-end operations for basic services. Fantasies for enhanced services included getting up-to-date information on address changes for their constituents and transferring essential information instantly. The instantaneous transfer of information fantasies were wide ranging. They primarily involved the increased use of electronic options to more efficiently and quickly serve their constituents, and better access to and ease of use of inter-jurisdictional data bases ("we're drowning in information, but we're starved for knowledge").

State and local government officials approached the inventions of the information age with a combination of enthusiasm for the new levels of efficiency they could achieve, tempered with a fear of the unknown.

C**Leading Basic
Application
Opportunities**

Of the wide range of 26 key business communication applications (see Exhibit II-1) considered during interviews, most were of very modest size.

The five state and local government departments which had the largest combined basic applications were

- Voter Registration (\$154.5 million)
- Property Taxes and Assessments (\$106.8 million)
- Motor Vehicles Department (\$101.9 million)
- Controller's Office disbursements (\$67.0 million)
- Employment Development Department (\$61.5 million)

However, these opportunities were not as attractive as it first appears for several reasons.

The largest single application, sample ballots, in the Voter Registration Department, was eliminated from consideration because it contains very little variable data and could more accurately be considered a commodity which primarily involves printing. This would not be an attractive opportunity for Moore IDS.

The second-largest application, in the area of property taxes and assessments, is actually carried out by two distinct departments, Property Tax Office and Assessor's Office. Therefore, the actual potential for future business is split between these two departments.

The remaining three opportunities represent large potential markets. However, they are unlikely to be penetrated by any vendor. Of all the negative responses toward contracting operations to a vendor, the respondents from these departments were most vehement. One articulate respondent in the Controller's Office felt strongly that no part of his operation would *ever* be contracted, despite dire emergency conditions. He felt his operation encompassed the heart of the state's business. This sentiment was echoed in the Motor Vehicles Department and the Employment Development Department.

The one application which appeared promising at an early stage, the area of municipal court traffic citations and parking tickets, has a high probability of being contracted out. However, applications from this department may represent a small potential market (\$23.0 million). Some evidence suggests this market may be much larger. Unfortunately, confirmation of specific application markets is beyond the scope of this project. Should it prove to be a larger market, as indicated by vendor revenue, the next question would be "is this niche saturated by in-place competition?"

EXHIBIT II-1

State and Local Government: Key Applications

| Department | Key Application |
|-----------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Department of Revenue | Income tax returns, delinquency notices |
| Employment Development Department | Employer's quarterly contribution and wage reports, delinquency notices, monthly or quarterly deposit forms, unemployment and disability benefit checks |
| Board of Equalization | Sales tax returns, delinquency notices |
| Motor Vehicles | Driver's license renewals, driver's license renewal reminders, car registration renewals, car registration renewal reminders, ownership certificates, suspension notices |
| Controller's Office | Payroll checks, retirement checks, income tax refunds, vendor payments, lottery checks, Medi-Care checks |
| Appraisal and Property Taxes | Appraisal notice, property tax statements, delinquency notices |
| Municipal Court | Courtesy traffic violation notices, delinquency notices, parking tickets |
| Social Services | Benefit checks |
| Collections | Monthly statements, delinquency notices |
| Voter Registration | Sample ballots, absentee ballots |

D**Leading Enhanced
Application
Opportunities**

A wide range of enhanced business communication applications were considered during interviews. The two most frequently requested enhanced applications were an address checking capability and adding OCR or barcode technology to current operations.

Several agencies communicate with the same client on an annual or less frequent basis. A major problem is locating the 15 to 20% of clients who change address in the intervening years. An automatic, updated on-line address checker was thus considered a potentially attractive enhanced service. The total market potential was approximately \$50 million for 10 state and local government departments.

Bar codes and OCRs were already installed in several government agencies. Others mentioned these technologies as future possible improvements which would aid in examining and sorting large amounts of mail automatically. This enhanced service represents a potential market of approximately \$175 million for 10 state and local government departments.

E**Basic and Enhanced
Application
Opportunity Size**

Typically developed market forecasts are deemed inappropriate for this project. Instead, a methodology was applied to develop rough opportunity sizing measures for quantitative comparison of these applications. This is a measure of total latent potential expenditures for the service without regard to rate of adoption, in-house versus external solutions, competition, or other factors deemed unrealistic to measure (see Exhibits II-2, II-3 and II-4).

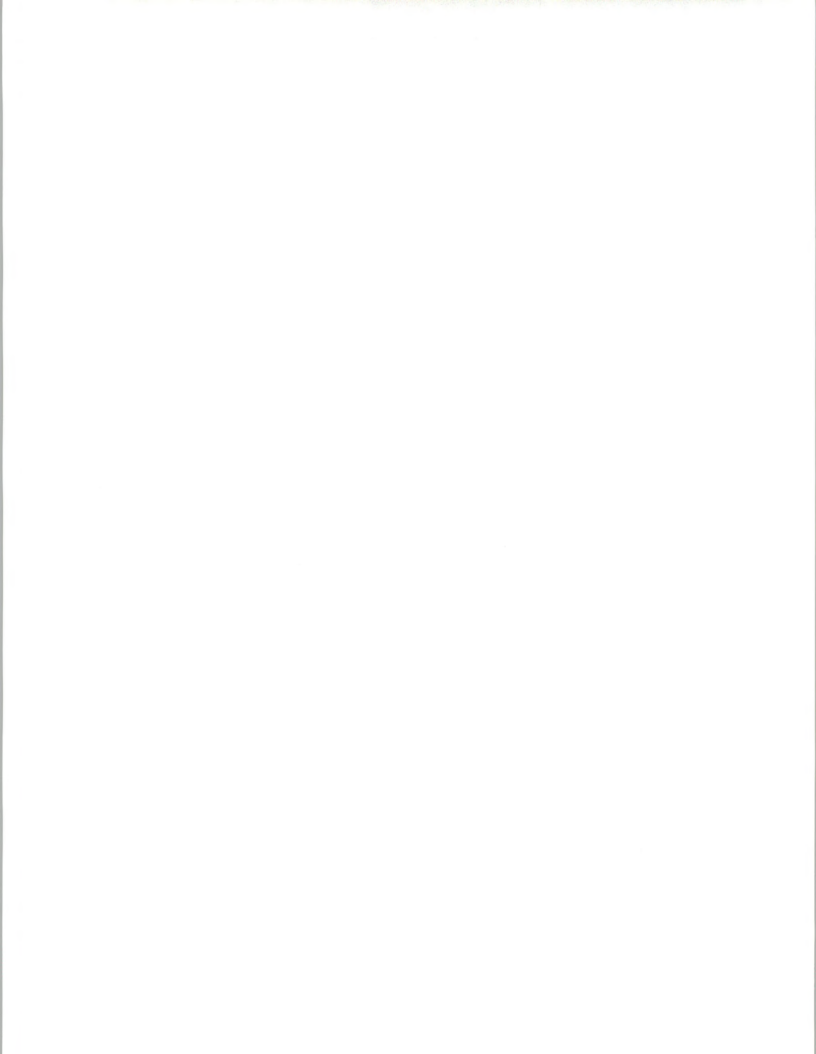


EXHIBIT II-2

State and Local Government: Basic Opportunities Sizing in State Government

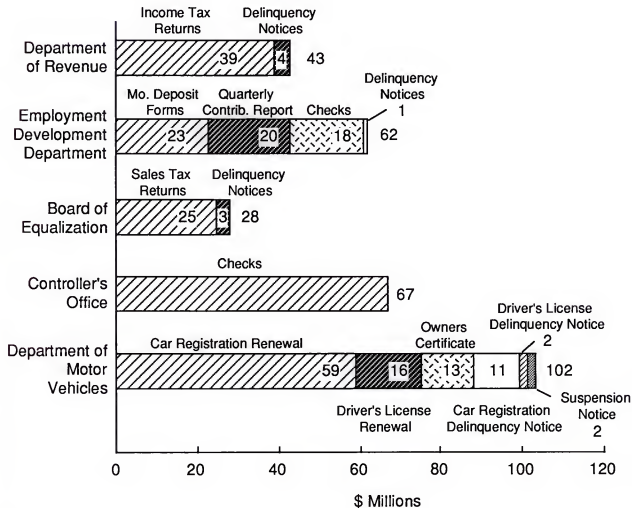


EXHIBIT II-3

State and Local Government: Basic Opportunities Sizing in Local Government

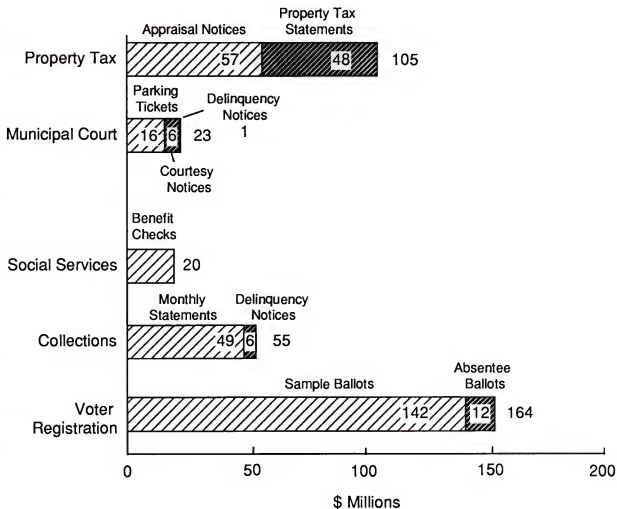
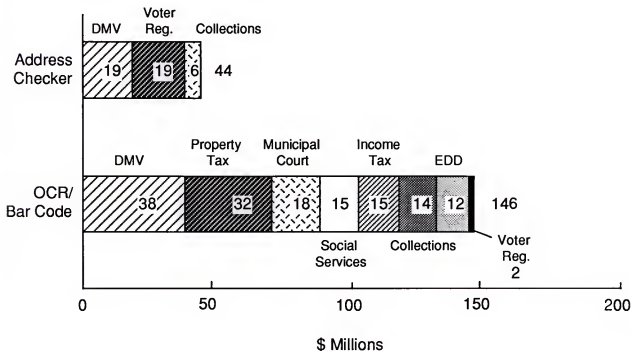


EXHIBIT II-4

State and Local Government: Enhanced Opportunities Sizing in State and Local Government



F

Application Opportunity Attractiveness

Exhibits II-5, II-6 and II-7 use a standard rating methodology to factor the basic and enhanced opportunity sizes calculated with two other key criteria derived from the interviews: respondents' willingness to contract services, and their level of pain of problem with respect to each application.

A five-point rating scale is applied to each criterion, where a 1 indicates a rating that is unattractive or negative to Moore IDS' interest in winning—or likely ability to win—such business, and a 5 indicates a positive or very positive rating. By rating each of the criteria and then multiplying the ratings (the multiplication shown in the tables is Size x Willingness to Outsource x Level of Pain of Problem), the product is a Relative Rating Value that represents the overall attractiveness to Moore IDS, in a fashion that combines the quantitative opportunity-volume sizing with the other two essentially subjective criteria.

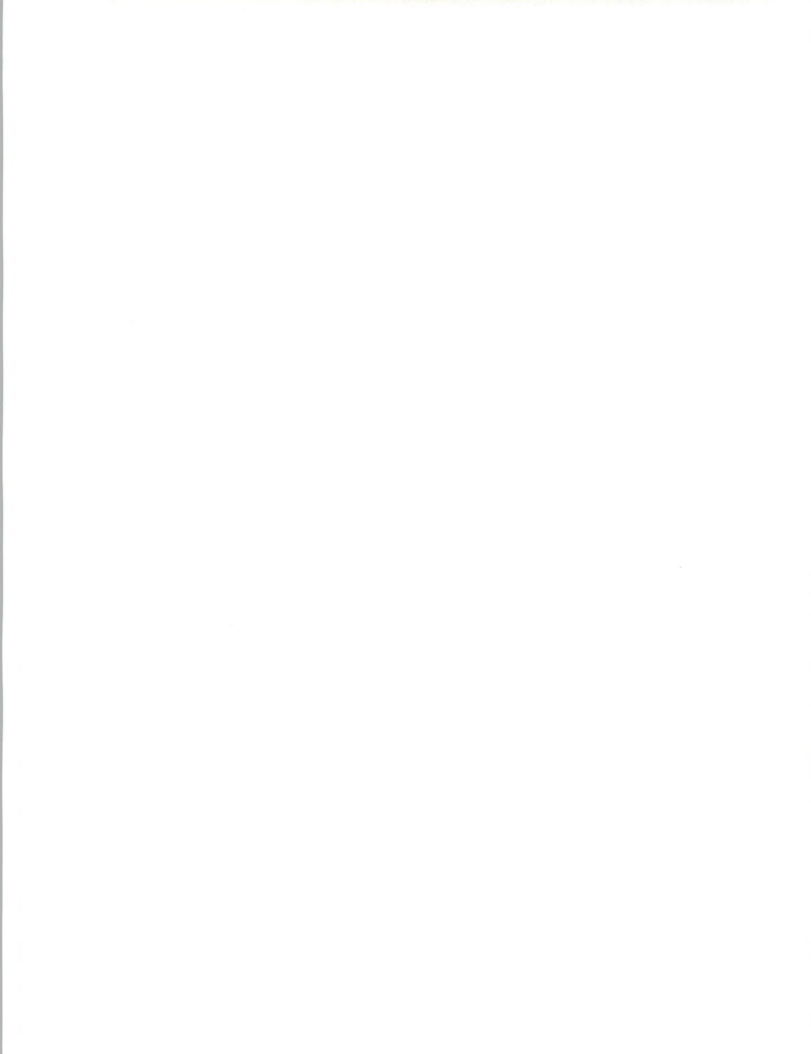


EXHIBIT II-5

**State and Local Governments:
Relative Attractiveness Ratings of State Government
Basic Services Opportunities**

| Application opportunity (\$ Millions) | | Criteria ratings (range: 1 = negative to IDS, 5 = positive) | | | Overall attractiveness (range: 1 = lowest 125 = highest) |
|------------------------------------------|--------------|-------------------------------------------------------------------|-------------------------------|----------------------------------|----------------------------------------------------------------|
| Department | Size | Relative Size | X Willingness to Outsource | X Level of Pain or Problem | = Relative Rating Value |
| Dept. of Revenue | | | | | |
| Income tax return | 39.0 | 1 | 1 | 1 | 1 |
| Delinquency notice | 4.4 | | | | |
| Subtotal | 43.4 | | | | |
| Employ Dev. Dept. | | | | | |
| Qrtly. contrib'n. report | 20.0 | | | | |
| Delinquency notice | 0.7 | | | | |
| Monthly deposit forms | 22.8 | | | | |
| Unempl/disab. checks | 18.0 | | | | |
| Subtotal | 61.5 | 1 | 1 | 1 | 1 |
| Board of Equalization | | | | | |
| Sales tax return | 25.0 | | | | |
| Delinquency notice | 3.3 | | | | |
| Subtotal | 28.3 | 1 | 1 | 1 | 1 |
| Motor Vehicles | | | | | |
| Driver's license renewal | 16.4 | | | | |
| Driv. license delinq. notice | 1.8 | | | | |
| Car registr'n renewal | 58.5 | | | | |
| Car registr'n. delinq. notice | 11.0 | | | | |
| Ownership certificate | 12.5 | | | | |
| Suspension notice | 1.7 | | | | |
| Subtotal | 101.9 | 2 | 1 | 1 | 2 |
| Controller's Office | | | | | |
| Variety of checks | 67.0 | | | | |
| Subtotal | 67.0 | 1 | 1 | 1 | 1 |
| TOTAL | 302.1 | | | | 6 |

EXHIBIT II-6

**State and Local Governments:
Relative Attractiveness Ratings of Local Government
Basic Services Opportunities**

| Application opportunity (\$ Millions) | | Criteria ratings (range: 1 = negative to IDS, 5 = positive) | | | Overall attractiveness (range: 1 = lowest 125 = highest) |
|------------------------------------------|--------------|-------------------------------------------------------------------|-------------------------------|----------------------|----------------------------------------------------------------|
| Department | Size | Relative Size | X Willingness to Outsource | X Pain or Problem | = Relative Rating Value |
| Property Taxes | | | | | |
| Appraisal notice | 56.5 | | | | |
| Prop. tax statement | 47.7 | | | | |
| Delinquency notice | 2.6 | | | | |
| Subtotal | 106.8 | 2 | 1 | 1 | 2 |
| Traffic Citations | | | | | |
| Courtesy notice | 6.4 | | | | |
| Delinquency notice | 0.6 | | | | |
| Parking tkt. notices | 16.0 | | | | |
| Subtotal | 23.0 | 1 | 4 | 3 | 12 |
| Social Services | | | | | |
| Benefit checks | 20.0 | | | | |
| Subtotal | 20.0 | 1 | 2 | 2 | 4 |
| Collections | | | | | |
| Monthly statement | 49.4 | | | | |
| Delinquency notice | 6.0 | | | | |
| Subtotal | 55.4 | 1 | 4 | 2 | 8 |
| Voter Registration | | | | | |
| Sample ballot | 142.5 | | | | |
| Absentee ballot | 12.0 | | | | |
| Subtotal | 154.5 | 2 | 2 | 1 | 4 |
| TOTAL | 359.7 | | | | 30 |

EXHIBIT II-7

**State and Local Governments:
Relative Attractiveness Ratings of Enhanced
Services Opportunities**

| Application opportunity (\$ Millions) | | | Criteria ratings (range: 1 = negative to IDS, 5 = positive) | | | Overall attractiveness (range: 1 = lowest 125 = highest) |
|------------------------------------------|--------|--------------|-------------------------------------------------------------------|-------------------------------|--------------------------------|----------------------------------------------------------------|
| Enhanced Service | Dept. | Size | Relative Size X | Willingness to Outsource X | Level of Pain or Problem | Relative Rating Value = |
| Address Checker* | | | | | | |
| County billing | Colln. | 6.5 | 1 | 4 | 4 | 16 |
| Driver's licenses | DMV | 4.2 | | | | |
| Car regist'n. renewal | DMV | 15.0 | | | | |
| Subtotal | DMV | 19.2 | 1 | 4 | 4 | 16 |
| County sample ballots | Voter | 19.0 | | 3 | 3 | 9 |
| Total/Average Checker | | 44.7 | 1 | 3.5 | 3.5 | 12 |
| OCR/Bar Code** | | | | | | |
| Traffic ticket notice | Court | 5.3 | | | | |
| Traffic ticket delinq. | Court | 0.4 | | | | |
| Parking ticket notice | Court | 12.0 | | | | |
| Subtotal | Court | 17.7 | 1 | 3 | 3 | 9 |
| Drivers license renewal | DMV | 6.3 | | | | |
| Drivers lic. delinq. notice | DMV | 1.2 | | | | |
| Car reg'n. renewal | DMV | 22.5 | | | | |
| Car reg'n. delinquency | DMV | 7.5 | | | | |
| Subtotal | DMV | 37.5 | 1 | 2 | 2 | 4 |
| Colln's. mo. statement | Colln. | 9.8 | | | | |
| Colln's. delin. notice | Colln. | 4.5 | | | | |
| Subtotal | Colln. | 14.3 | 1 | 2 | 2 | 4 |
| Property tax notice | P.TX | 30.0 | | | | |
| Prop. tax. delinq. notice | P.TX | 2.3 | | | | |
| Subtotal | P.TX | 32.3 | 1 | 2 | 2 | 4 |
| Employee wage report | EDD | 12.0 | 1 | 2 | 2 | 4 |
| Soc. Serv. status report | S SV | 15.0 | 1 | 2 | 1 | 2 |
| Income tax return | TAX | 15.0 | 1 | 1 | 2 | 2 |
| Voter regist'n. abs. ballot | Voter | 2.4 | 1 | 2 | 1 | 2 |
| Sales tax return | EQZ | 30.0 | 1 | 1 | 1 | 1 |
| Total/Average OCR | | 173.8 | 2 | 2 | 2 | 8 |
| Total Enhanced | | 218.5 | | | | 20 |

* Assumptions: \$0.10 per address check; each address is automatically checked before document is mailed

** Assumptions: \$0.15 per barcode; each application in Exhibits III-5 and III-6 which lists "return envelope" in characteristics column is included here

The four departments with the highest attractiveness ratings in basic applications are listed below.

| <u>Basic Application</u> | <u>Attractiveness Rating</u> |
|-------------------------------------------|----------------------------------|
| Municipal Court (traffic tickets, etc.) | 12 |
| Collections Department (delinq. accounts) | 8 |
| Social Services (benefit checks) | 4 |
| Voter Registration | 4 |
| Remaining 7 Departments | 8 |
| Total for Basic Services Market | 36 |

Two enhanced applications showed promise:

| <u>Enhanced Application</u> | <u>Attractiveness Rating</u> |
|------------------------------------|----------------------------------|
| Address Checker | 12 |
| OCR/Barcode | 8 |
| Total for Enhanced Services Market | 20 |

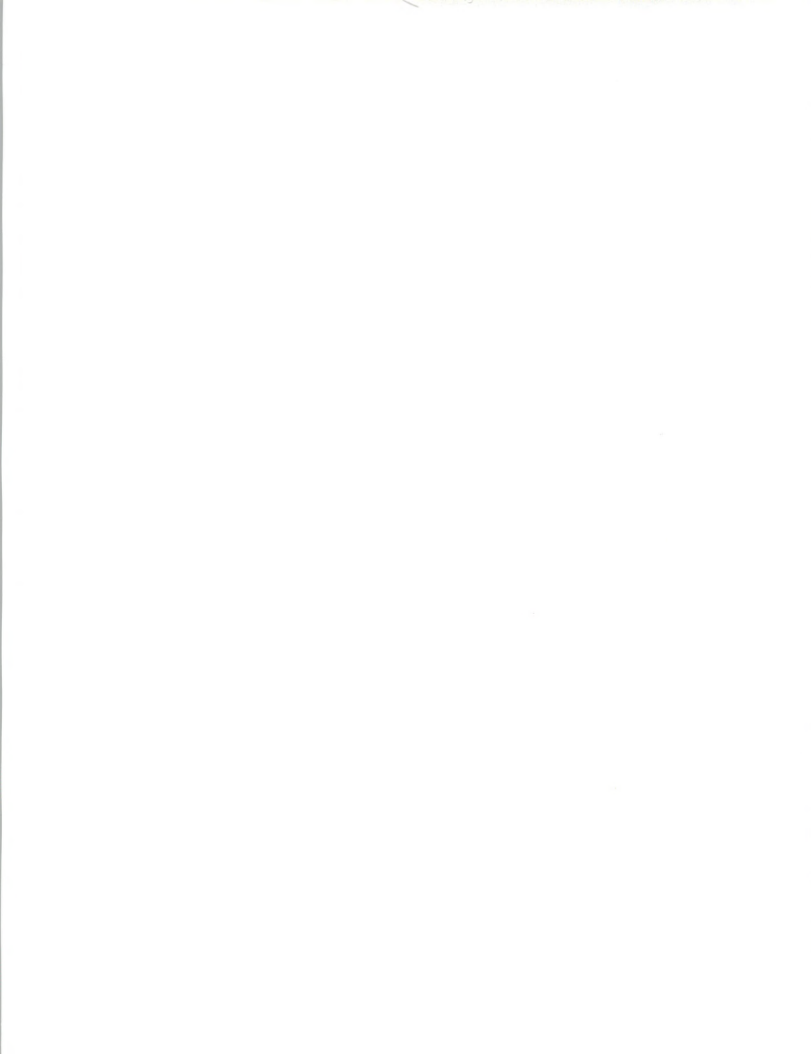
Opportunities in basic services in the state and local government market are limited by small, highly-fragmented applications, low and infrequent mailing volumes, and strong in-house tendencies.

Enhanced application opportunities are less fragmented by type, but the challenge of selling them across multiple departments and agencies should be considered.

G

Future Promise of the Market

Is there any likelihood that, given various factors or events, this may become a more attractive market in the future? The underpinnings of the state and local government market militate against a major increase in future attractiveness.



First, the three major factors which determine the size of a viable market opportunity are low in the state and local government market, and they are not expected to change in the foreseeable future. They are number of clients (e.g., only 15% of the driving population gets traffic tickets), frequency of service (many applications are processed only once a year), and the cost of service (most services are under \$.40).

Second, the willingness to outsource the service and the perception of the level of pain of the problem were exceptionally low for almost all applications. Of all the questions posed, the willingness to outsource extracted the strongest responses. This attitude is not expected to change. The level of pain is expected to change only if an agency is inundated by a sudden and large caseload either due to new legislation or as a public reaction to an unpredictable event. Several respondents mentioned it is easier to bid on and win a new technology or procedure than to contract out an existing operation. The respondents still felt that there would be a 75 to 90% chance that once the new technology was in place and fully understood, the jurisdiction would bring the operation in-house.

INPUT feels it is difficult to base a sound strategic plan on capricious events.

H

Target Audience of the Enterprise Served

Exhibits II-8 and II-9 organize opportunity size and attractiveness measures by the target audience of the applications considered. While this is done for purposes of later cross-industry analysis at the conclusion of INPUT's research project, it is noteworthy now that the dominant departments and applications in the state and local government industry deal with customer communications.

EXHIBIT II-8

Opportunity Size by Target Audience (\$ Millions)

| Type of Service | Target Audience | | | | | Total |
|-----------------|-----------------|-----------|--------------------------|------------------------|-----------|---------------------|
| | Owners | Employees | Customers | | Suppliers | Internal Efficiency |
| A. Basic | | | Business | Consumer | | |
| | | | EDD (62) | Dept. of Revenue (43) | | |
| | | | Board of Equaliz'n. (28) | | | |
| | | | | | | |
| | | | | Motor Vehicles (102) | | |
| | | | | Controller's (67) | | |
| | | | | Property Tax (107) | | |
| | | | | Traffic Citations (23) | | |
| | | | | Social Services (20) | | |
| | | | | Collections (55) | | |
| | | | | Voter Registr'n. (155) | | |
| Total | | | (90) | (572) | | (662) |

EXHIBIT II-8 (Cont.)

Opportunity Size by Target Audience (\$ Millions)

| Type of Service | Target Audience | | | | | Total | |
|---------------------|-----------------|-----------|-----------|----------|-----------|-------|---------------------|
| | Owners | Employees | Customers | | Suppliers | | Internal Efficiency |
| | | | Business | Consumer | | | |
| B. Enhanced | | | | | | | |
| 1.) Address Checker | | | | | | | |
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EXHIBIT II-9

Opportunity Attractiveness by Target Audience (Attractiveness Rating Scores)

| Type of Service | Target Audience | | | | | Total |
|-----------------|-----------------|-----------|-------------------------|------------------------|-----------|-------|
| | Owners | Employees | Customers | | Suppliers | |
| A. Basic | | | Business | Consumer | | |
| | | | EDD (1) | Dept. of Revenue (1) | | |
| | | | Board of Equaliz'n. (1) | | | |
| | | | | | | |
| | | | | Motor Vehicles (2) | | |
| | | | | | | |
| | | | | Controller's (1) | | |
| | | | | | | |
| | | | | Property Tax (2) | | |
| | | | | | | |
| | | | | Traffic Citations (12) | | |
| | | | | | | |
| | | | | Social Services (4) | | |
| | | | | | | |
| | | | | Collections (8) | | |
| | | | | | | |
| | | | | Voter Registr'n. (4) | | |
| Subtotal Basic | | | (2) | (34) | | (36) |

EXHIBIT II-9 (Cont.)

Opportunity Attractiveness by Target Audience (Attractiveness Rating Scores)

| Type of Service | Target Audience | | | | | Internal Efficiency | Total |
|----------------------|-----------------------|-----------|-----------|----------|-----------|---------------------|-------|
| | Owners | Employees | Customers | | Suppliers | | |
| B. Enhanced | | | Business | Consumer | | DMV | |
| 1.) Address Checker | | | | | | Voter Registr'n. | |
| | | | | | | County Billing | |
| | | | | | | | |
| Subtotal | | | | | | (12) | (12) |
| 2.) OCR/ bar code | | | | | | Municipal Court | |
| | | | | | | DMV | |
| | | | | | | County Billing | |
| | | | | | | Property Tax | |
| | | | | | | EDD | |
| | | | | | | Social Service | |
| | | | | | | Internal Rev. | |
| | | | | | | Voter Registr'n. | |
| | Board of Equalization | | | | | | |
| Subtotal Enhanced | | | | | | (8) | (8) |
| Total | | | | | | (20) | (20) |



I**Trends Which Lead to Threats and Opportunities**

Trends were mentioned in the interviews which can either pose a threat or an opportunity for increasing the amount of work contracted to vendors. The determination of which label to apply to each trend was based largely upon the interviewers' judgment of how each event would affect the likelihood of contracting out business mailing operations.

The three major environmental threats were heavy investment in upgrading in-house capabilities, hiring more proficient managers who are capable of running complex automated systems, and reluctance to release confidential data to vendors.

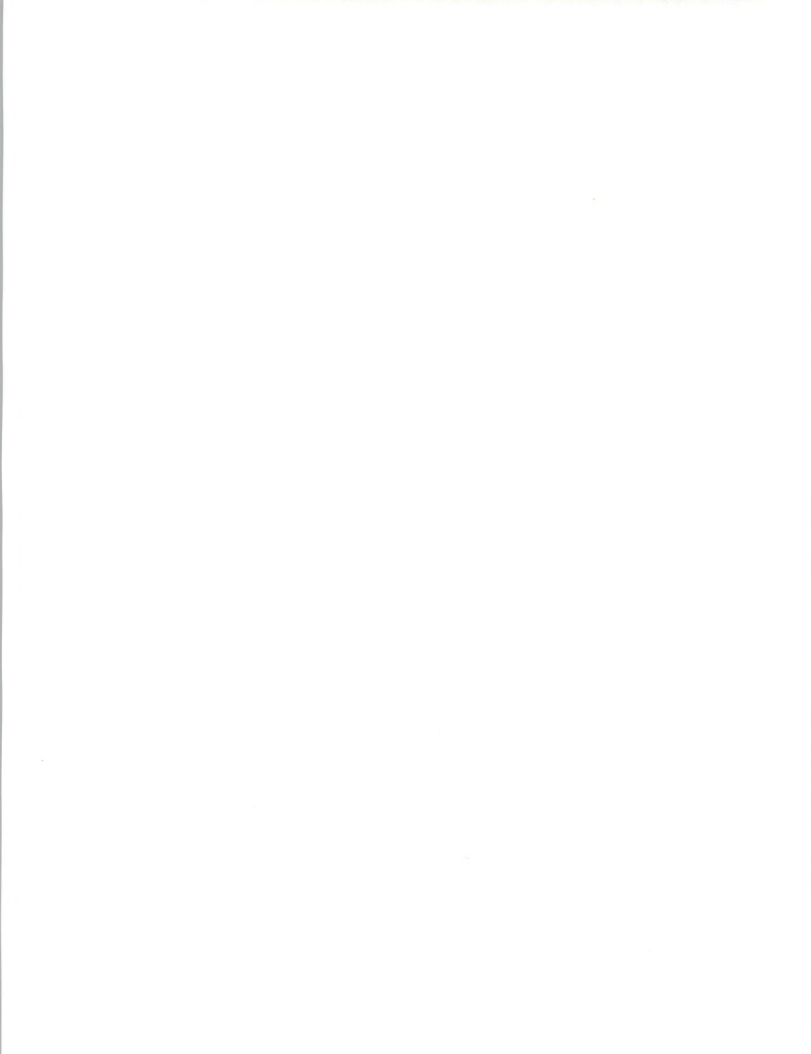
Major opportunities might arise from the trend of government agencies toward greater sensitivity to consumers' needs. This new goal encourages officials to demand greater system capabilities and install new technologies to satisfy their constituents more quickly and efficiently. Although managers are more savvy than in the past, they are unable to implement all the changes they would like because computer literacy is far from uniform across all staff members. And, with increasing workloads, particularly in human resource departments, work cannot be completed entirely in-house. As bottom-line oriented criteria are applied to the "make vs. buy" decision, implementation of new technologies may increasingly be contracted to outside vendors.

Unlike for-profit corporations, there is often confusion over organizational responsibility for implementing interdepartmental systems. This too might open the door for contractors.

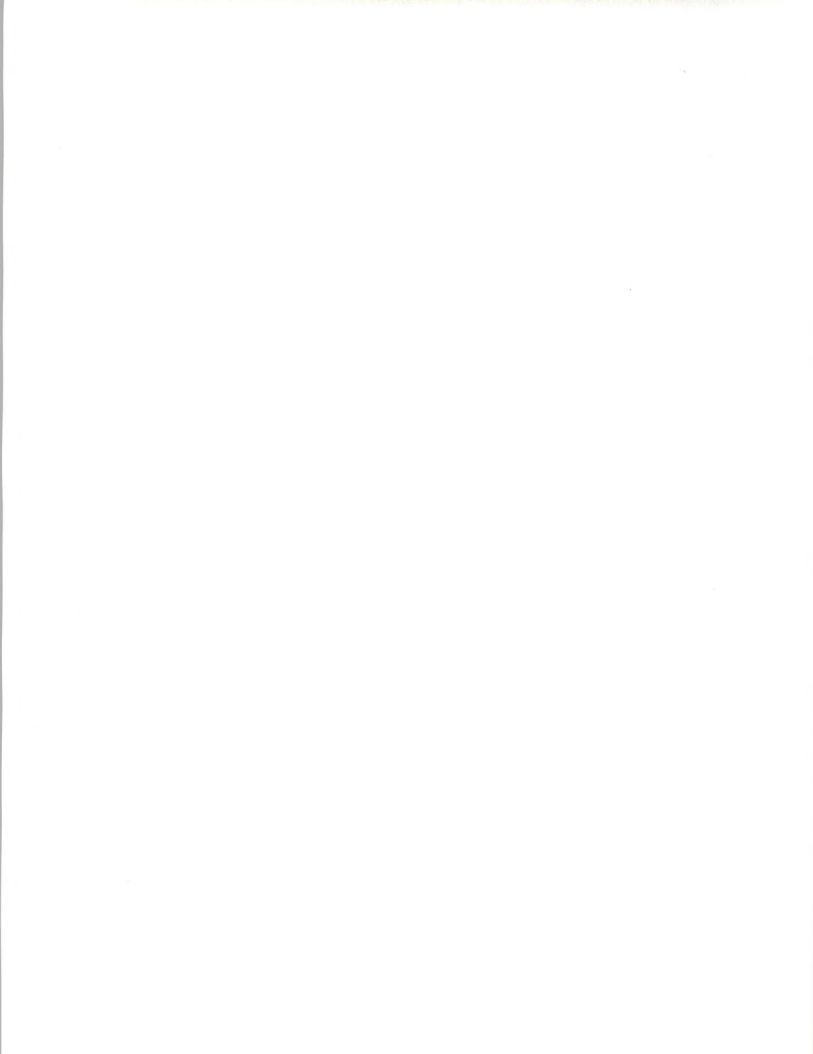
As part of delegating some program administration responsibilities to state governments, the federal government is funding state purchases of variable imaging equipment. INPUT views this as a relatively neutral event, neither closing down nor opening up opportunities for IDS.

J**Competitors**

As has been mentioned previously, the interviewees, for the most part, do not use outside vendors for their respective applications. The critical competition for Moore IDS, both for basic and enhanced service opportunities, is the in-house organization. All organizations contacted have or are in the process of upgrading variable image printing to laser printer capabilities as well as upgrading systems equipment and software, and adding automated equipment. Contracting out tasks would undermine the rationale for having made major investments in new equipment.



Some interviewees mentioned that even if their own capabilities could not handle an entire task, they had a second back-up. They relied on the printing and mailing capabilities of other departments in their jurisdiction. Thus, in the state and local government sector, Moore IDS has *two* competitors: the primary in-house organization and other in-house organizations. Obviously, in the case of highly complex or specialized printing, this secondary in-house backup source may not apply.





Market Opportunities







Market Opportunities

Numerous application opportunities for Moore IDS have been examined. Before discussing these opportunities, however, it will be useful to first summarize the findings about the use of vendors by state and local governments today, as well as attitudes about future use of vendors. A description of problems and future improvements will also be discussed.

A

Introduction

Five interviews were conducted with state and local officials who had an overview of business mailing operations for their jurisdictions, and 19 interviews were conducted with officials who had specific responsibility for the business mailing operations within their department or division.

Findings about the use of vendors were very consistent across government departments and across jurisdictions. Very few of the 19 departmental officials currently use outside vendors. Those that do, contract only the final mailing operations. In two cases, the government agencies send the vendor printed matter which is then stuffed, sorted, and mailed by the vendor. In two cases, the envelopes are already stuffed and sealed. The vendor sorts and mails the sealed envelopes to take advantage of bulk sorting rates.

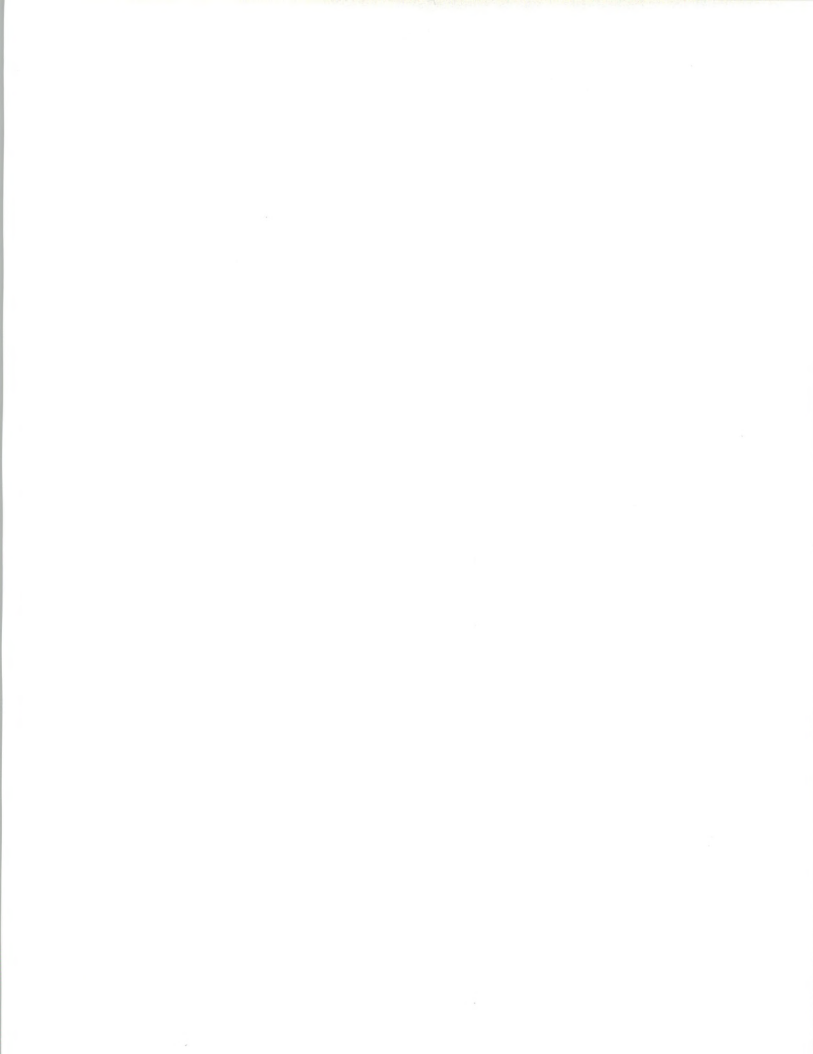


EXHIBIT III-1

**State and Local Government:
Current Use of Vendors**

| Operation | Number of Departments Reporting Outsourcing (Frequency of Mention) |
|-------------------------------|--------------------------------------------------------------------------|
| Front-end operations | 0 |
| Back-end operations | 0 |
| Printing of non-variable data | 2 |
| Stuffing | 2 |
| Stuffing (peak periods only) | 1 |
| Sort by zip | 5 |

When respondents were queried about their future plans for using vendors, there was an adamant reluctance to consider using vendors in the future for either printing or mailing processes.

Fourteen of the 19 respondents said they would not consider contracting outside for printing and mailing services. The remaining five respondents, who currently use a vendor, answered they would be likely to use a vendor in the future (four answered 4, one answered 5). One department, which currently has a contractor sort its outgoing mail, may in the future consider having the vendor stuff the mail.



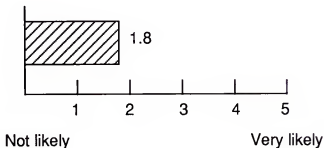
EXHIBIT III-2

**State and Local Government:
Future Contracting Plans**

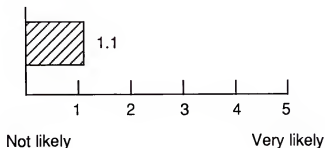
Question:

Average Rating

How likely are you to outsource
any of the printing and mailing
application/operations we have
discussed?



How likely are you to outsource
any of the front- or back-end
operations we have discussed?



Seventeen of the 19 respondents said they would be *very unlikely* (rating of 1) to consider contracting outside for front- or back-end services. The remaining two respondents said they would be *unlikely* (rating of 2) to contract front- or back-end services from vendors. Reasons cited for not using vendors are summarized in Exhibit III-3.



EXHIBIT III-3

**State and Local Government:
Reasons Against Future Contracting of Services**

| Category | Reason | Number of Responses* |
|--------------------|-------------------------------------------------------------------------|----------------------|
| Control/Security | Sensitive data will not be secure | 13 |
| | Must maintain control of valuable information or large amounts of money | 5 |
| Optimal Operations | Current operations running smoothly | 11 |
| | Turnaround time is already low | 5 |
| | Have self-contained, complete facility | 2 |
| | Costs are already low | 2 |
| Job Security | Union constraints | 2 |
| | Large number of employees would be laid off | 1 |
| | State laws and regulations | 1 |
| Miscellaneous | Previous experience with contractors: low bid = poor service | 1 |
| | Risk averse: contracting provides the potential for criticism | 1 |
| | Bid process too lengthy (6 weeks) | 1 |

* Does not total to 19 because respondents provided multiple answers

The only positive response toward front- or back-end processing was from a state Board of Equalization manager who would consider back-end services if the vendor could open the mail and deposit checks in a more timely manner than is currently being done. Upon further questioning, it became apparent that improvements would be unlikely, as checks were already deposited five to ten times a week.



Among those surveyed, 42% (8 of 19) handle their variable-image printing with high-capacity in-house laser printers—either the Xerox 4050, 9700 or IBM 3800 series. For the remaining respondents, impact printers will be replaced within one to three years by laser printers. Because of these relatively recent investments in laser printers, printing operations are reported to be smooth, economical, and *firmly in place* at least for the foreseeable future.

The most vehement opponents of using vendors cite a strong duty to protect highly sensitive data and funds. For example, following the shooting of a young actress in Los Angeles, a motor vehicle administration department official is allowing drivers' addresses to be seen only on a need-to-know basis. The murderer obtained the actress' address from the Department of Motor Vehicles. In this climate, not only are steps taken to prevent outside vendors from seeing drivers' addresses, but even employees within the department are restricted in their access.

A chief (Department of Finance, State Controller's Office in California) cited the amount of the checks his department is responsible for as the reason he would not contract any part of the process—not even zip code sorting—to any outside vendor. This gentleman is responsible for \$14 billion in disbursement checks.

A pervasive underlying theme was that the respondents were conducting the *main* business of the state. They perceived that their duties were not peripheral functions. One respondent noted that just as an insurance company would not contract out their main task of underwriting, the state would not contract out their task of developing and maintaining the data bases of residents from which they collect and to whom they disburse state revenues.

The second-most common reason for not contracting business mailing operations was that most of the respondents felt that their operations were running well, and "if it wasn't broken, why fix it?". Given the long tenure of government employees (most were in their job ten years or more), it is believable that the kinks were worked out of the system long ago.

Major improvements most commonly cited were to update and upgrade the equipment of the departments to handle a larger volume of data more expeditiously. This implies a continuing commitment to in-house operations.

In most cases, the respondents initially said that there were no significant problems with their operations. The problems listed in Exhibit III-4 were solicited only after additional prompting. These problems might more accurately be classified as planned improvements. With one exception, the respondents were satisfied with their current operations.



The one respondent who was not satisfied with his operations seemed vexed at the time of the interview. He cited the capricious whim of the state legislature in passing laws which affected his operation and the purchasing office's arbitrary bidding process as reasons for his dissatisfaction. It seemed his dissatisfaction stemmed from not being fully in control of making decisions for his own agency, which is beyond the scope of this study.

EXHIBIT III-4

State and Local Government: Problems and Planned Improvements

| Category | Problem/Improvement | Number of Responses |
|----------------------|-----------------------------------------------|---------------------|
| Equipment | Need equipment upgrade | 4 |
| | Laser printers | 8 |
| | Envelope readers (OCR, bar code) | 6 |
| | Data management | 5 |
| | On-line capability | 2 |
| | Automatic mailing equipment | 2 |
| | Electronic transmission of data | 1 |
| Facilities | Need more space | 5 |
| | Improved workflow | 1 |
| Address/ delivery | Improve addressability (change of address) | 4 |
| | Improve deliverability (zip code accuracy) | 3 |
| | | |
| Miscellaneous | Streamline forms | 1 |
| | More efficient staffing | 1 |



B**Leading Application Opportunities****1. Basic Services Opportunities**

In examining the basic applications in state and local government departments, we find almost all applications have little variable data. One characteristic which distinguishes them is the frequency of the mailing. Two-thirds (6 of 9) of state applications processed on a regular (not variable) basis are processed monthly, annually, or less frequently (see Exhibit III-5). Three-quarters (6 of 8) of local government applications are processed monthly or less frequently (see Exhibit III-6).

The characteristic, frequency of mailing, is an early indicator that the number of mailings in the state and local government sector will not be as high as the number of mailings in those vertical markets which have continuous daily mailings.

a. Front-End Opportunities

Though almost all of the respondents were very satisfied with their front-end operations, when questioned about two-thirds (13 of 19) expressed the desire for enhanced capabilities in front-end processing. These included faster data processing, the ability to process greater amount of data, more-powerful data base operations, networking among government departments, and easier data entry operations. Despite this fairly lengthy wish list, all respondents categorically rejected the option of contracting *any* of their front-end operations to vendors because they felt the operations required enormous security and internal control, as cited in Exhibit III-3. Feelings were so strong that if a disaster struck, one respondent mentioned he would not enter a facilities management contract, but would rent a facility off-site and staff it with his own people.

b. Printing and Mailing Opportunities

All interviewees were, by and large, satisfied with their mass mailing equipment and with their current printing and mailing processes. The respondents have completed or are in the process of upgrading and updating equipment, and consider it their solemn duty to protect the taxpayers' private information by conducting the operations in-house.

The major criteria upon which the respondents would decide to contract any of the business mailing operations were lower cost, quicker turn-around, absolute security, and most importantly, new technology that they were unable to implement themselves. Major improvements planned in the next three to five years involve some technology-intensive options.



EXHIBIT III-5

State and Local Government: Characteristics of Key Basic State Applications

| Department | Key Applications | #/Year | Characteristics | Variable Information |
|-----------------------------------|---------------------------------------------------|---------|------------------------------------------------------------------|-----------------------------------------------------------------------------------------|
| Department of Revenue | Income tax return | 1 | Form within booklet, return envelope | Name, address, ID number |
| | Delinquency notices | Varies | Card | Name, address, ID number, penalties and interest, filing period |
| Employment Development Department | Employer's quarterly contribution and wage report | 4 | Form within booklet, return envelope | Name, company, address, several ID #'s, filing period, penalty date |
| | Delinquency notices | Varies | Card | Name, company, address, several ID #'s, filing period, due date, penalties and interest |
| | Monthly or quarterly deposit forms | 1 | 1/3 card; 12 forms sent once a year; check is returned with form | Name, company, address, several ID #'s, filing period, penalty date |
| | Unemployment and disability benefit checks | 52 | 1 page information, check | Name, (company), address, ID number, date, amount of check, (total amount to date) |
| Board of Equalization | Sales tax return | 4 or 12 | Blank return, return envelope | Name, company, address, ID #, filing period, penalty date |
| | Delinquency notices | Varies | 2-page, 2-part form | Name, company, address, ID #, filing period, penalty date, penalties and interest |

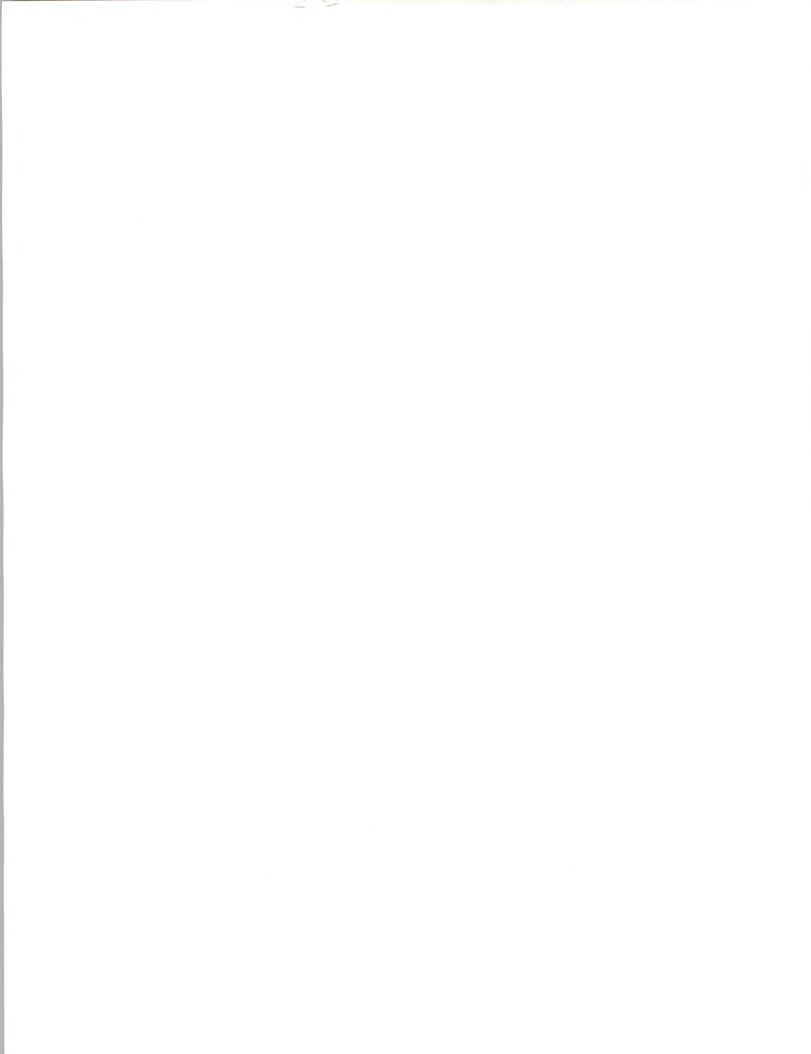


EXHIBIT III-5 (Cont.)

State and Local Government: Characteristics of Key Basic State Applications

| Department | Key Applications | #/Year | Characteristics | Variable Information |
|---------------------|-----------------------------------------------------------------------|--------------------|---------------------------------------------------|-----------------------------------------------------------------------------------------------------------------|
| Motor Vehicles | Driver's license renewal | Once in 2 to 4 yrs | Card, return envelope | Name, address, lic. no., renewal date, personal characteristics, restrictions code |
| | Driver's license renewal reminder | Varies | Card, return, envelope | Name, address, lic. no., renewal date, assessed interest and penalties |
| | Car registration renewal | 1 | Card, return envelope, stickers for license plate | Name, address, vehicle ID #, model yr., make, model, fees, date of notice, date of expiration |
| | Car registration renewal reminder | Varies | Card, return envelope | Name, address, vehicle ID #, model yr., make, model, interest and penalties, date of notice, date of expiration |
| | Ownership certificate | Varies | 1 page | Name, address, vehicle ID #, model yr, make, model, fees, date of sale, (sales price of car) |
| | Suspension notices | Varies | Folded paper instructions | Name, address, lic. no., date of notice, suspension date |
| Controller's Office | Payroll checks, retirement checks | 52 | Check, stub | Name, address, dept. name, dept. ID, employee ID #, amount, pay period |
| | Income tax refunds, vendor payments, lottery checks, Medi-Care checks | 52 | 1 page information, check, stub | Name, company, address, ID #'s, amount, date of payment, period of payment |



EXHIBIT III-6

State and Local Government: Characteristics of Key Basic Local Government Applications

| Department | Key Applications | #/Year | Characteristics | Variable Information |
|------------------------------|------------------------|--------|-----------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Appraisal and Property Taxes | Appraisal notice | 1 | Card | Name, address, property ID #, date of notice, assessment |
| | Property tax statement | 1 | 1 page statement, 2 envelopes, 2 stubs | Name, address, property ID #, tax jurisdiction, property type, assessed value, taxable rate, exemptions, amount due, date of notice, penalties, penalty date, taxing agencies and taxing agencies' tax rates, messages |
| | Delinquent notices | Varies | 1 page statement, stub, envelope | Name, address, ID #, property ID #, amount due, date of notice, penalties and interest, penalty date |
| Municipal Court | Courtesy notice | 52 | 1 page statement, return envelope | Name, address, citation #, docket #, court location, date of notice, violation, date of violation, due date, amount due |
| | Delinquent notices | Varies | 1 page statement, return envelope | Name, address, citation #, docket #, court location, date of notice, violation, date of violation, due date, amount due, penalties and interest |
| Social Services | Checks | 12 | 1 page statement, check, monthly status report, return envelope | Name, address, amount, case # |

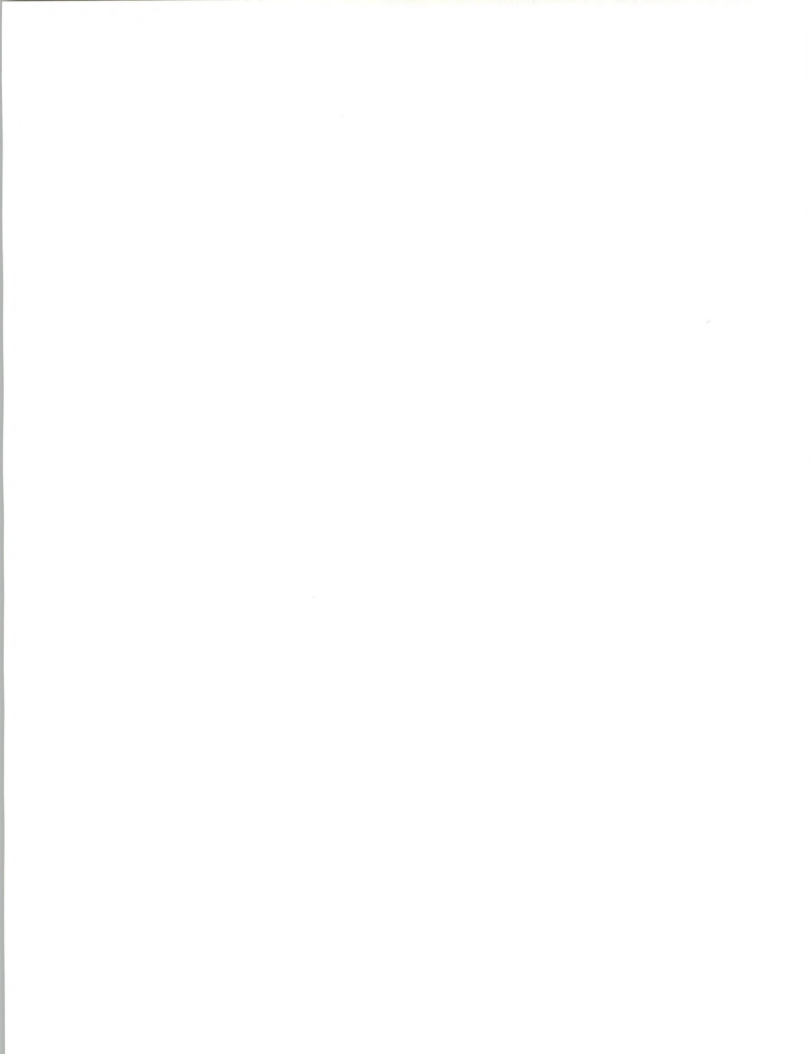


EXHIBIT III-6 (Cont.)

**State and Local Government:
Characteristics of Key Basic Local Government Applications**

| Department | Key Applications | #/Year | Characteristics | Variable Information |
|--------------------|--------------------|--------|-------------------------------------------|-------------------------------------------------------------------------------------------|
| Collections | Monthly statement | 12 | 1 page statement, return envelope | Name, address, amount owed, name of government contact, transactions since last statement |
| | Delinquent notices | 52 | 1 page statement, return envelope | Name, address, amount owed, name of government contact, warning message |
| Voter Registration | Sample ballots | 1 | 16-56 page booklet | Name, address, ID #, precinct, polling address |
| | Absentee ballots | 1 | 16-56 page booklet, card, return envelope | Name, address, ID #, precinct |

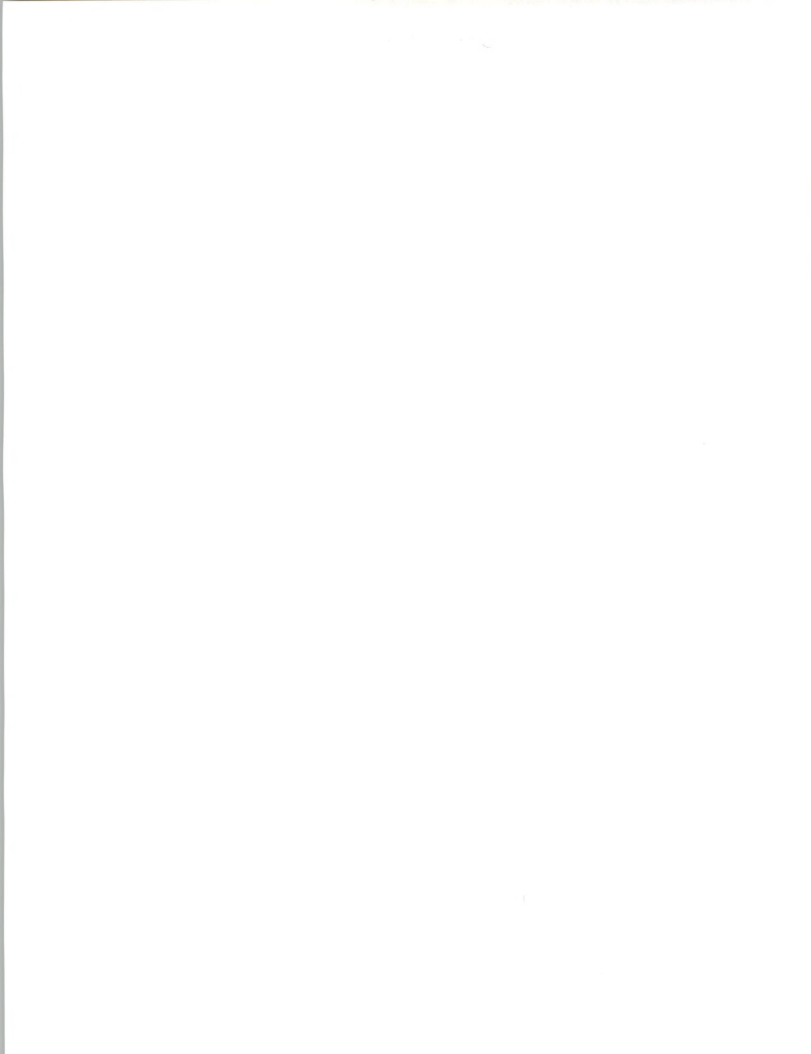
c. Back-End Opportunities

As with front-end operations, almost all of the respondents were satisfied with their back-end operations. When queried, about 32% (6) expressed the desire for adding barcodes or optical character reader capabilities to automatically read and sort incoming mail. One department is currently opening 40,000 pieces of mail, by hand, each day.

Only one respondent mentioned expediting the deposit of checks (lock box facility). When questioned in more detail, the respondent was already depositing checks 5 to 10 times per week.

All respondents intended to implement improvements in-house, citing the security and control required for handling large sums of money (see Exhibit III-3). Even when asked under what conditions the respondent would contract all operations, some respondents could not conceive of any situation that would induce them to contract the front- or back-end operations.

To seize back-end operation opportunities in this market, Moore IDS would need to conduct on-site evaluations, which all but one respondent would permit, and aid the jurisdiction in implementing new technologies.



Several respondents mentioned it is easier to bid on and win a new technology or procedure than to contract out an existing operation. The respondents still felt that there would be a 75 to 90% chance that once the new technology was in place and fully understood, the jurisdiction would bring the operation in-house.

All officials in departments which issue checks for their jurisdictions were adamant about keeping them in-house because of the risk of misappropriation of funds. This was also a concern to operations that collected large funds. In back-end processing, there was a concern that interest would be lost if the process was contracted to an organization that did not deposit funds promptly. Underlying all of these stated reasons was the fact that these officials had built up substantial departments and would risk loss of job or prestige if those operations were reduced by contracting any part of the process.

One notable exception to this pattern is the application of traffic citations. The public officials in this function were very interested in pursuing a solution that would increase the percentage of fines collected from parking and traffic citations. They would be willing to contract this operation out-of-house if (1) there was no initial investment and (2) the vendor could improve upon their current 70% collection rate. This application merits further study. Note that it surfaces as an opportunity because it addresses a problem and facilitates the in-house function rather than replacing it.

Exhibit III-7 summarizes current outsourcing practices and the future possibility for outsourcing printing front-end and back-end operations.

d. Future Opportunities

In one survey question, respondents were asked about their wildest fantasies of improving their current operations. Many of the wild fantasies were not very wild. They concerned day-to-day operations and were feasible with current technology. The most widely held fantasies involved the enhancement of equipment capabilities and capacity. Other items mentioned involved personnel (improving worker morale and cutting turnover), revisions to the physical plant (adding more space and improving the workflow of the operation), and perfect fine collection mechanisms (see Exhibit III-8).

Most government officials acknowledged that, although the process to implement these changes might be slow, they were confident their governing bodies would, in time, respond to their needs. It is significant that all of the fantasies are improvements to in-house operations, not requests for contractors.

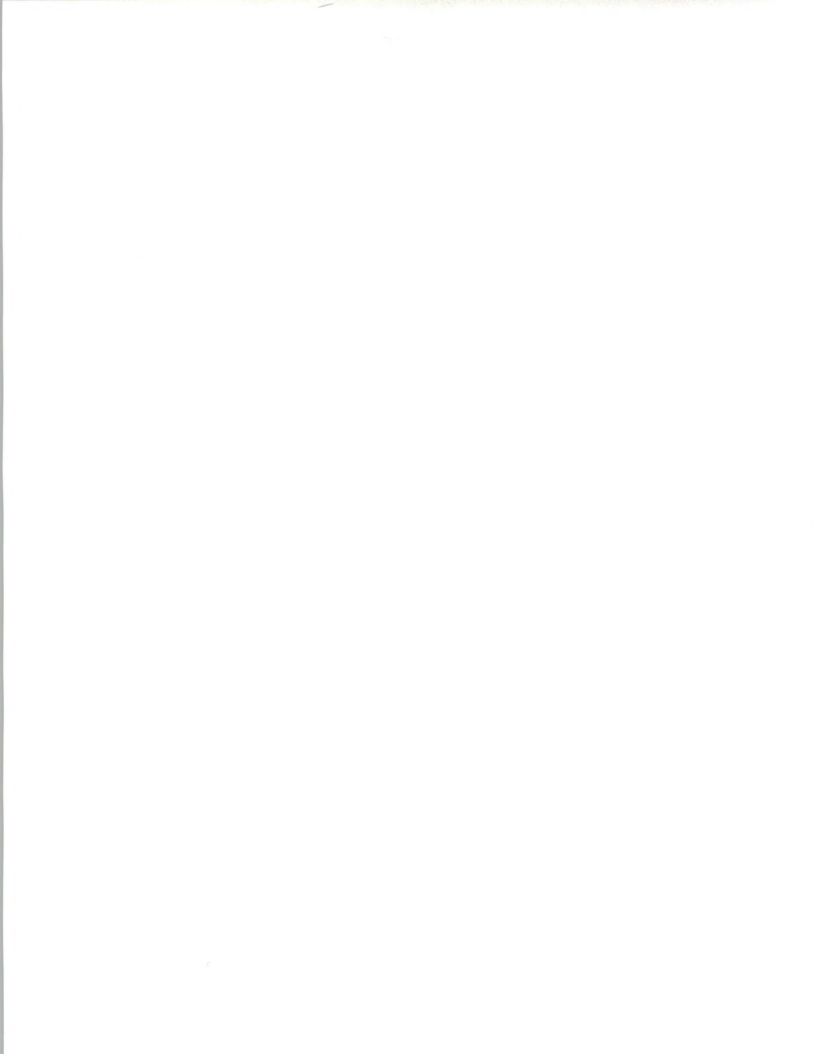


EXHIBIT III-7

**State and Local Government:
Basic Service Opportunities**

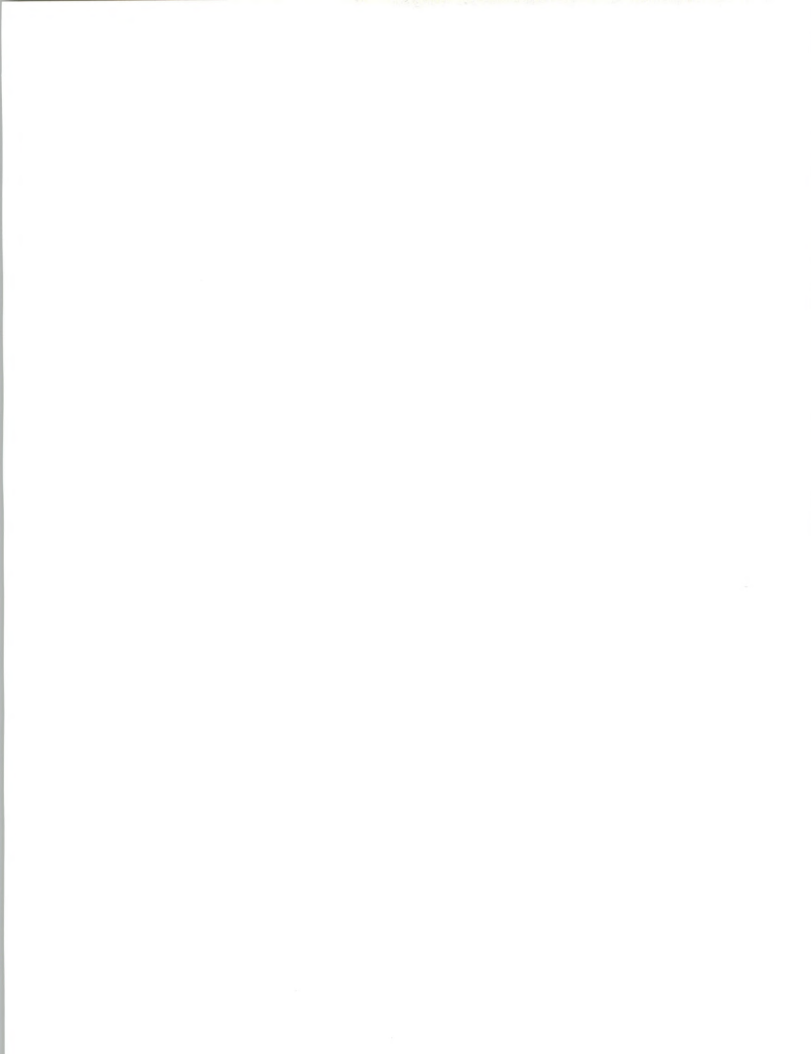
- **Printing and Mailing Operations**
 - Currently outsourced by 21% (4 of 19) of respondents. These four officials were open to contracting more of their printing and mailing operations.
 - 79% (15 of 19) of respondents are not currently contracting printing and mailing services and were unlikely to do so in the future
- **Front-End Operations**
 - Contracting rejected by 19 of 19 respondents
- **Back-End Operations**
 - Contracting rejected by 16 of 19 respondents
 - Three officials responsible for collecting traffic fines were very responsive to the idea of contracting collections out if the collection ratio was significantly improved



EXHIBIT III-8

**State and Local Government:
Respondents' Basic Services Fantasies**

| Category | Specific Fantasy |
|---------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Equipment-related | Improve main memory of computer Improve data storage—can't buy disks fast enough; need to buy a new building Reduce response time at terminals Automatically purge records at end of each year Process deeds and update computer maps, transfer information to recorder's office, assessment and tax board, and compile sales data all with one entry |
| Back-end operations | Collect 99% of all package tickets through collection arm and nationwide credit agencies |
| Office layout | Better space, new facility, better configuration |
| Personnel | Reduce personnel turnover |



2. Enhanced Service Opportunities Overview

This section will focus on enhanced application and service opportunities, as defined in Exhibit I-1, Key Research Objectives.

a. Introduction: Current Contracting Activities and Future Fantasies

Two topics will serve to set the stage for projecting enhanced service opportunities: contracting front- and back-end operations that surround the central variable imaging function (see Exhibit III-9) and fantasies that respondents have about ideal future systems solutions (see Exhibit III-10). The following are enhanced services which respondents are providing in-house:

- Several departments were transmitting bulk data between government departments or to and from large users. For example, the motor vehicle department transmitted data to insurance companies.
- Six respondents were currently using barcodes or OCR technology. An additional six are studying the option or currently implementing it.

Of the government agencies surveyed, only one enhanced application was being purchased from vendors: one motor vehicle department was currently using a national data base to correct addresses of drivers who have moved and not notified the department. Another motor vehicle department was considering doing the same.

EXHIBIT III-9

State and Local Government: Current Contracting of Enhanced Applications

- Front-end enhanced applications: purchase of national address data base
- No contracting of back-end enhanced applications



The survey asked state and local government officials to express their wildest fantasies with respect to their operations, regardless of whether they were feasible. Some of the fantasies were discussed in the basic applications section. Other fantasies, notably those listed under the headings of communications with clients and front-end processing, had a longer-term focus. **The common thread was transferring essential information instantly.**

The most-widely held enhanced service fantasies involved reducing the amount of paper flow and transferring information instantly from the government to clients, from clients to the government, and between government agencies, via electronics. Tempering their desires with their concerns, most government officials acknowledged that despite the current feasibility of electronically transferring information, their departments would still require a paper trail for security. It is significant that all of the fantasies are carried out in-house, and no contractors were mentioned.

The first category of fantasies involved the exchange of information from the agency to clients. A major problem for agencies that communicate with the same clients on an annual or less-frequent basis is locating the 15 to 20% who change address in the intervening months or years. Several use national data bases provided by private agencies. Providing an automatic, updated on-line address checker may be a potentially attractive enhanced service. INPUT suggests this may be an enhanced service Moore might consider acquiring and providing, if the acquisition can be leveraged in other vertical markets.

A more difficult fantasy to fulfill would be ensuring that the information is being transmitted to the *correct* client. One agency for which this service is particularly important is a municipal court which issues warrants and license suspensions and for which no mistakes are permissible.

Once the correct address and correct person are ascertained, several agencies mentioned they would like to initiate or increase the electronic transmission of information. Currently, several agencies are transferring to and receiving bulk data from large-scale information requestors. Many driving records are routinely transferred to insurance companies. The largest employers in the states convey massive records to state tax boards and state employment development departments which collect sales taxes and employee disability and unemployment taxes, respectively. Few government agencies have this capability, but many have heard of it and are actively considering it or are at least open to the possibility.

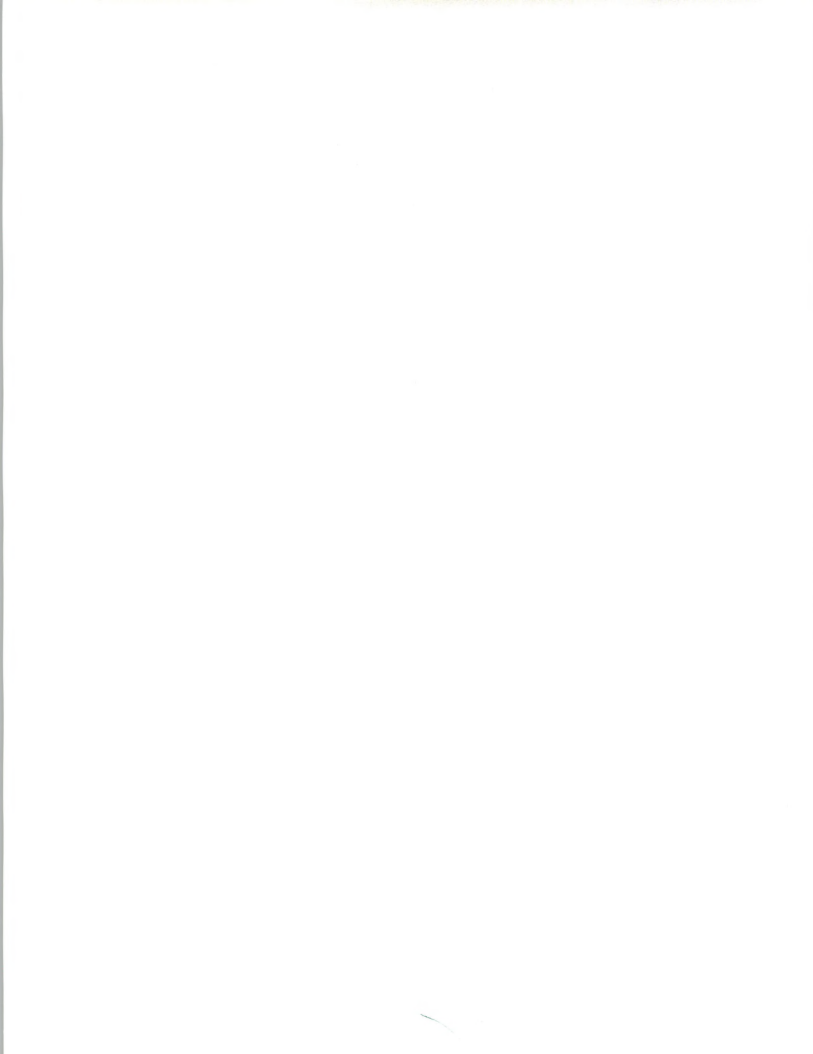
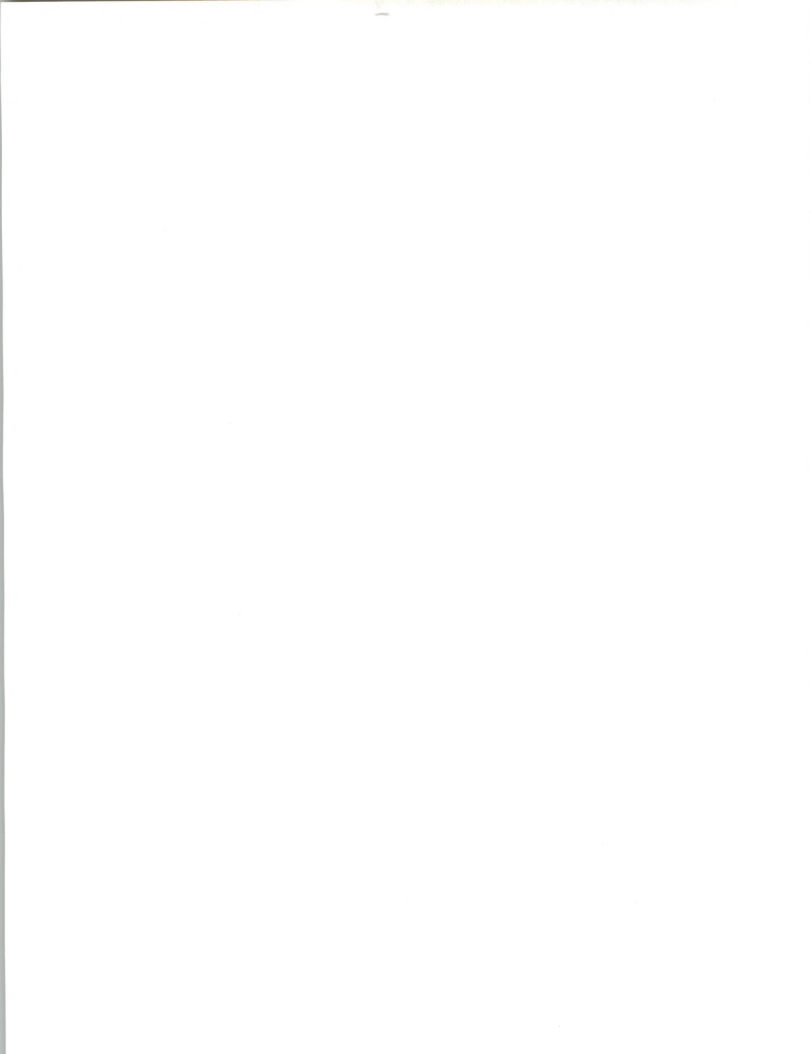


EXHIBIT III-10

State and Local Government: Respondents' Enhanced Services Fantasies

| Category | Specific Fantasy |
|-----------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Correct erroneous addresses | <ul style="list-style-type: none"> • Capture the 15-20% of clients who change address via national files or other means • "Every taxpayer would pay taxes"; that is, improve addressability and enforce laws • Improve the quality of addresses and deliverability in the data base |
| Communicate electronically with clients | <ul style="list-style-type: none"> • Communicate electronically both to and from the clients rather than via paper • Fax information via modem and telephone lines to clients • Increase the practice of electronically transferring bulk data via telephone lines to large-scale info requestors • Automatically dial clients and activate a voice message for the client to call the government office • Computerized automatic answering system 24 hrs./day • Provide access for all clients by using symbols on phone (like local department stores) • Use ATM/POS terminals to distribute welfare benefits • Implant homing device under the skin of criminal offenders to monitor house arrest |
| Front-end operations | <ul style="list-style-type: none"> • Make 100% sure the <i>real</i> traffic offender is "ding-ed"; send traffic ticket to the <i>correct</i> John Jones • Tie in with DMV to withhold license if driver has outstanding tickets • Automatically check credit status (e.g. TRW credit system) when evaluating eligibility for benefits • Use bar code instead of docket number to track case through the system • Use hand-held terminals to enter pkg. tickets; connect devices to central system at end of each day and enter data directly into system • Enter information on-line into central computer rather than by batch operation • Terminals read your mind; no data input required |



A second category of fantasies involved the exchange of information between individual citizens and the agency. Agencies which deal with the general public are increasingly interested in running their operations like a consumer business and providing convenient consumer services. One convenience being considered was the use of the symbols on the telephone for clients to communicate to or request simple information from the agency, or to pay bills via credit card or from bank accounts. The general idea is similar to systems which department stores, discount brokers, and banks currently provide to customers for getting automatic information on their accounts or allowing them to pay their bills by credit card.

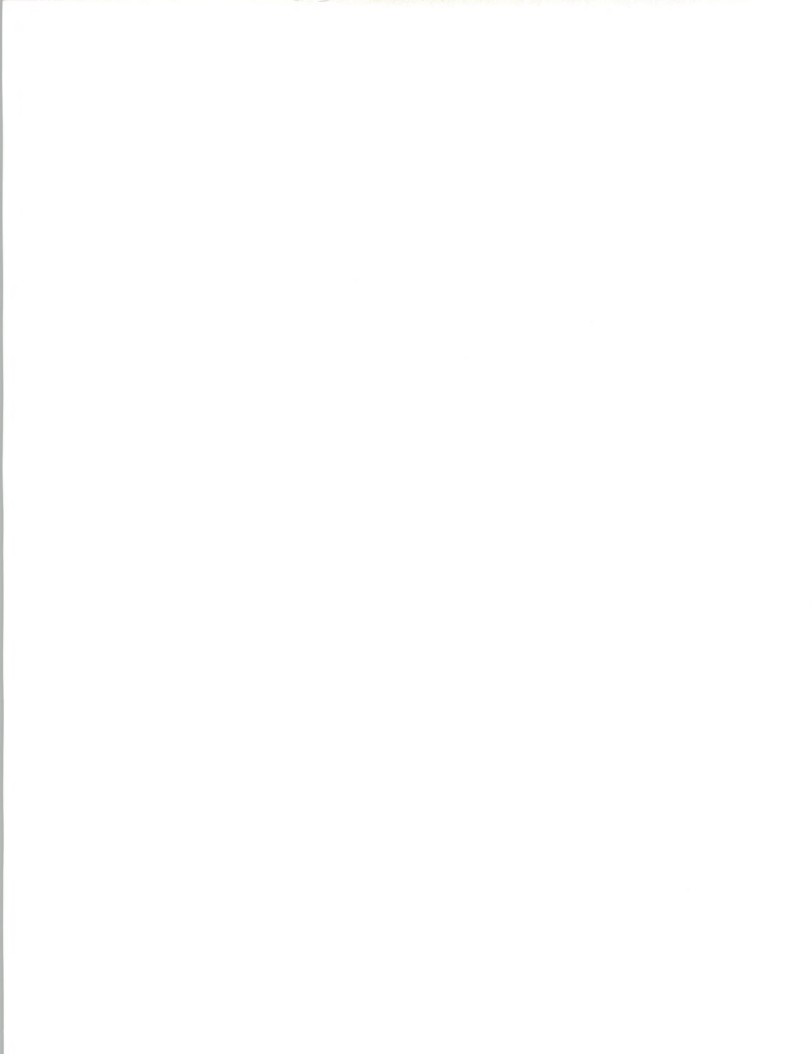
Another future convenience which agency officials wanted to extend was faxing information to and from clients, assuming that in 10 or 20 years most businesses and homes will be equipped with such machines.

The third type of fantasy concerned automated data entry. One local government agency was studying the use of hand-held terminals, the size of calculators, to enter information for parking tickets. These devices would be connected to the central system each evening, entering data directly into the system.

[At least one state motor vehicle department is currently implementing a system which will allow immediate on-line data entry of license and registration information at each of 20 branch offices. Currently, batch information is sent to a central facility which takes three to four weeks to enter it.]

The next category of fantasies centered on communications between government agencies. One local municipal court official wanted to instantly convey convictions pertaining to driving records to the state department of motor vehicles which would in turn withhold a driver's license if there were any outstanding offenses, fines, or driving convictions. The technology is available and some states have implemented this linkage. The respondent stated that the reason for not implementing this linkage in her jurisdiction is more subtle.

As a collective group, state politicians have scores of outstanding parking tickets and fines because parking is difficult near the state capital. Therefore, in order to pass legislation to permit the link, the politicians will need to be forgiven and exempted from their current and future violations. This example is indicative of the nonrational elements of decision making in the state and local government market.



The last category of fantasies dealt with tracking documents through the system. Bar codes and OCRs are common in some government agencies and devoutly wished for in other agencies. These technologies aid in examining and sorting large amounts of mail automatically.

b. Enhanced Service Opportunities Overview

Unfortunately, of the opportunities listed in Exhibit III-11, only two may have potential for Moore IDS: address checker and OCR/bar code. Although all the opportunities lend themselves to the next generation all-electronic solution, they are point-to-point solutions which preclude a third party from participating.

EXHIBIT III-11

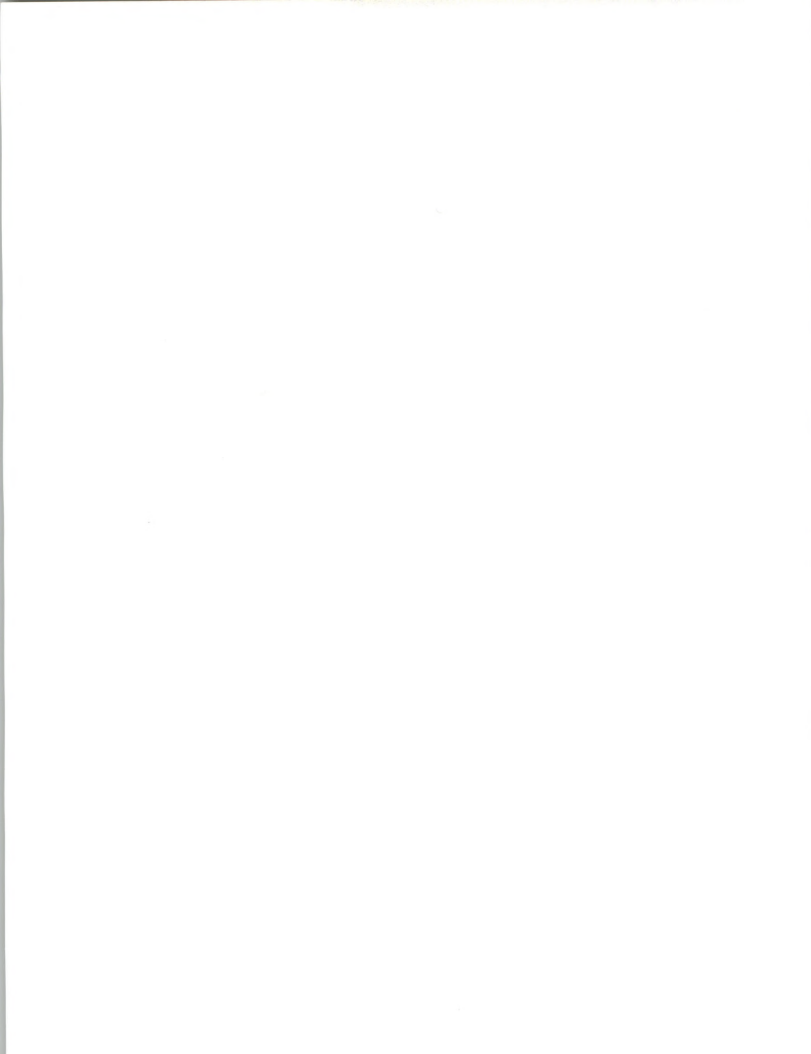
State and Local Government: Summary Listing of Enhanced Service Opportunities

| Problem | Moore IDS Service Opportunity |
|-----------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Clients change addresses without notifying government agency | (1) Provide on-line national data base of address changes (2) Provide automatic address checker capability for each name and address entered into the system |
| Large amounts of mail need to be manually sorted; individual pieces of mail can't be located once in the system | (1) Provide bar code or OCR technology |

C

Application/Service Opportunity Sizing and Ratings

The previous section detailed the leading application opportunities, approaching the subject qualitatively. This section applies quantitative methodologies to place dollar values on each opportunity and to rate them on an absolute scale.



1. Opportunity Sizing and Ratings for Basic Services

Exhibits III-12 and III-13 present the raw data gathered for each state and local government application, respectively. Because the raw numbers are dependent on the population served, each response was converted to a standard unit of measure, # units per 1,000 population, and multiplied to reach the U.S. market potential.

Given the inappropriateness of market forecasting for these opportunities, INPUT is adopting a working assumption that equates the sizing of each basic service opportunity with the size of today's estimated annual expenditures for "basic" applications (see below).

$$\text{\$ Opportunity Size} = (\text{Avg. mailed units per year}) \times \left(\frac{\text{\# units}}{\text{per year}} \times \frac{\text{U.S. population}}{1,000 \text{ population}} \times (\text{\$ price per unit}) \right)$$

The methodology is as follows:

- Obtained volumes (units printed and mailed) of each key application for state and local government departments from interviewees
- Calculated units per 1,000 population for each application to make volumes comparable for all U.S. jurisdictions, not just those surveyed
- Averaged units per 1,000 population where more than one jurisdiction was surveyed on a comparable application
- Multiplied by the approximate U.S. population (roughly 226,500,000) divided by 1,000 to project total units for the U.S., derived from published data
- Obtained price per unit from Moore IDS
- From above figures, determined total \$ opportunity

The formula for calculating dollar opportunity size is based on an average number of units printed and mailed for each document type per 1,000 population, derived from interview results and published data. Exhibits III-12 and III-13 show raw data for basic service opportunities, Exhibit III-14 shows raw data for enhanced service opportunities.

The figures in Exhibits III-12, III-13, and III-14 are then used to calculate the attractiveness ratings in Exhibits III-15, III-16, and III-19.

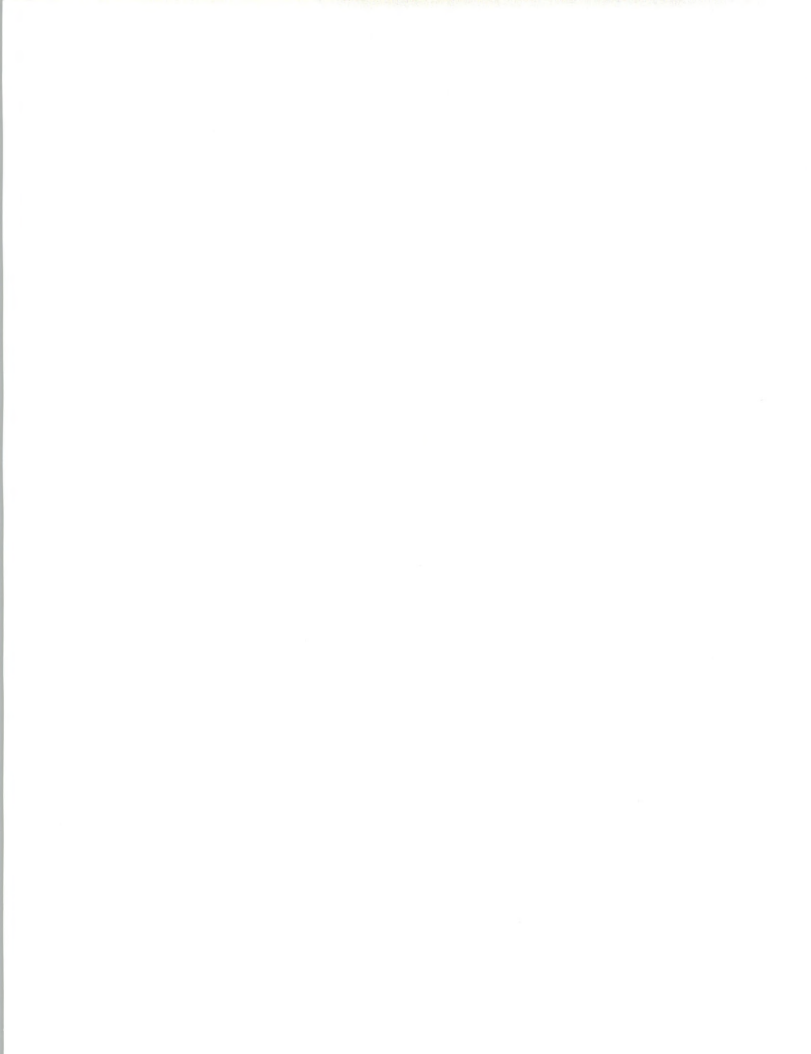


EXHIBIT III-12

**State and Local Government:
Basic State Government Applications Sizing
(Numbers in Thousands, except #/1000 Population)**

| Department | Key Applications | Number/ Year | Number in Survey | #/1000 Population | Potential U.S. Total | Rounded U.S. Total |
|-----------------------------------------|---------------------------------------------------------|-----------------|----------------------------------|----------------------------|-----------------------------|-----------------------|
| Department of Revenue | Income tax return | 1 | 1,500 CO 1,200 CT | 415 CA 374 CT 456 CT | 94,000 84,700 103,000 | 100,000 |
| | Delinquency notices | Varies | 250 CT 25-30% CT | 76 CA 94-112 CT | 17,200 21,300 25,400 | 20,000 |
| | | | | | | 120,000 |
| Employment Development Department | Employer's quarterly contribution and wage report | 4 | 2,300 CA 2,000 CA | 97 85 | 22,000 19,300 | 20,000 |
| | Delinquency notices | Varies | 200 CA 300-600 CA | 8 13-25 | 1,800 2,900-5,700 | 3,000 |
| | Monthly or quarterly deposit forms | 1 | 2,600 CA 3,000 CA 4,700 CA | 110 127 199 | 24,900 28,800 45,100 | 30,000 |
| | Unemployment and disability benefit checks | 52 | 15,000 CA 4,100 CA | 634 173 | 143,600 39,200 | 90,000 |
| | | | | | | 143,000 |
| Board of Equalization | Sales tax return | 4 or 12 | 3,700 CA 780 CT 98 CO | 200 243 30 | 45,300 55,000 6,800 | 50,000 |
| | Delinquency notices | Varies | 400 CA 200 CT | 17 62 | 3,900 14,100 | 10,000 |
| | | | | | | 60,000 |

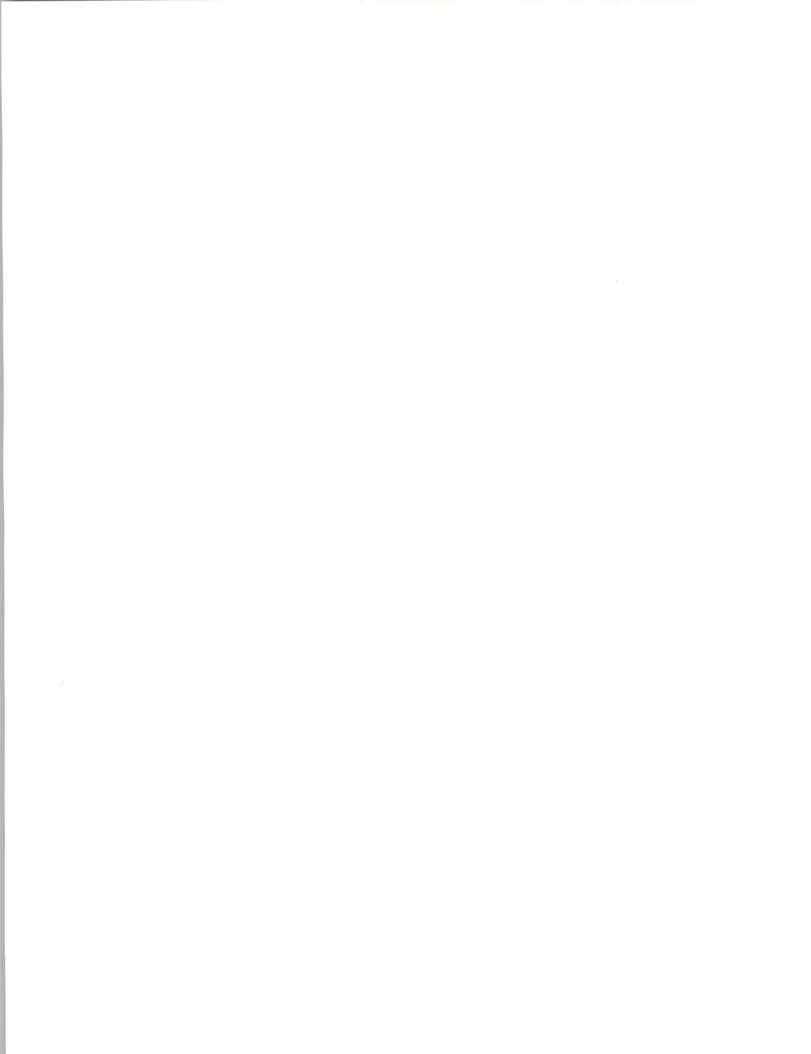


EXHIBIT III-12 (Cont.)

**State and Local Government:
Basic State Government Applications Sizing
(Numbers in Thousands, except #/1000 Population)**

| Department | Key Applications | Number/ Year | Number in Survey | #/1000 Population | Potential U.S. Total | Rounded U.S. Total |
|------------------------|--------------------------------------------------------------------------------|-----------------|-----------------------|----------------------|-------------------------|-----------------------|
| Motor Vehicles | Driver's license renewal | 4 yrs | 4,500 CA 602 CT | 190 187 | 43,000 42,400 | 42,000 |
| | Driver's license renewal reminder | Varies | 15-20% 20-25% | 33 43 | 7,500 9,700 | 8,000 |
| | Car registration renewal | 1 yr 2 yrs | 22,000 CA 1,300 CT | 929 405 | 210,400 91,700 | 150,000 |
| | Car registration renewal reminder | Varies | 8,100 CA | 342 | 77,500 | 50,000 |
| | Ownership certificate | Varies | 6,000 CA 700 CT | 254 218 | 57,500 49,400 | 50,000 |
| | Suspension notices | Varies | 156 CT | 49 | 11,100 | 11,000 |
| | | | | | | 311,000 |
| Controller's Office | Payroll checks, retirement checks | 52 | 35,000 CA | 1479 | 335,000 | 335,000 |
| | Income tax refunds, vendor payments, lottery checks, Medi-Care checks | 52 | | | | |
| TOTAL | | | | | | 969,000 |

Multiplying the average number of units of each application per population by a Moore IDS-provided per unit cost figure yields a figure for the total dollar opportunity size for each document type. INPUT is using a working assumption that unit pricing by Moore IDS is roughly equivalent to customer's in-house costs,

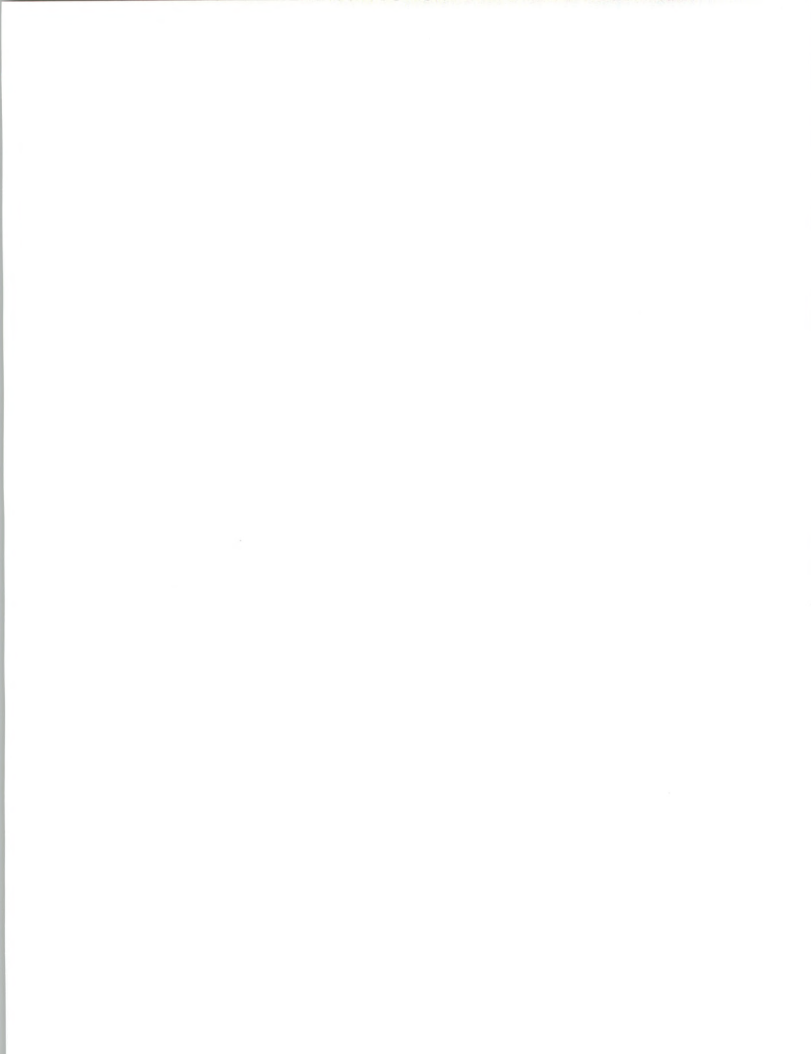


EXHIBIT III-13

**State and Local Government:
Basic Local Government Applications Sizing
(Numbers in Thousands, except #/1000 Population)**

| Department | Key Applications | Number/ Year | Number in Survey | #/1000 Population | Potential U.S. Total | Rounded U.S. Total |
|-----------------------|------------------------|-----------------|-----------------------|----------------------|----------------------------|-----------------------|
| Property Taxes | Appraisal notice | 1 | 300 AUS | 642 | 145,000 | 145,000 |
| | Property tax statement | 1 | 400 SC | 286 | 65,000 | 100,000 |
| | | 1 | 130 EUG | 494 | 112,000 | |
| | Delinquency notices | Varies | 25 SC 25 EUG | 18 95 | 4,000 22,000 | 15,000 |
| | | | | | | 260,000 |
| Municipal Court | Courtesy notices | 52 | 15 EUG IND DNVR | 143 152 166 | 32,000 34,000 38,000 | 35,000 |
| | Delinquency notices | Varies | 1 EUG IND DNVR | 8 15 13 | 2,000 3,000 3,000 | 3,000 |
| | Parking ticket notices | 52 | 36 EUG IND DNVR | 350 | 80,000 | 80,000 |
| | | | | | | 118,000 |
| Social Services | Checks | 12 | 1,440 SC | 1029 | 100,000* | 100,000 |
| Collections | Monthly statements | 12 | 400 SC | 286 | 65,000 | 65,000 |
| | Delinquency notices | 52 | 182 SC | 130 | 30,000 | 30,000 |
| | | | | | | 95,000 |
| Voter Registration | Sample ballots | 1 | 1175 SC | 839 | 190,000 | 190,000 |
| | Absentee ballots | 1 | 100 SC | 71 | 16,000 | 16,000 |
| | | | | | | 206,000 |
| TOTAL | | | | | | 779,000 |

* Assumption: Only cities and counties with population over 250,000 have local social services department. Smaller jurisdictions rely on state and federal programs.

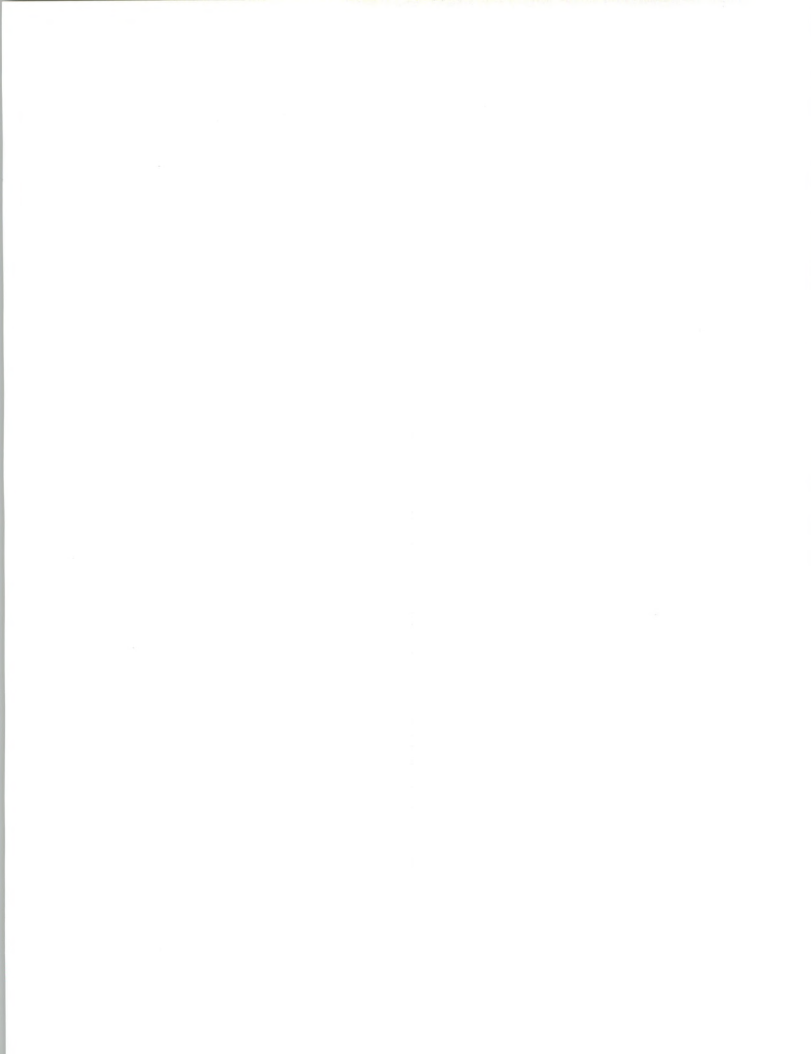


EXHIBIT III-14

**State and Local Government:
Enhanced State and Local Government
Applications Sizing**

| Enhanced Service | Dept. | # (MMs) | \$/Unit | \$ (MMs) |
|---------------------------------|--------|--------------|------------|--------------|
| Address Checker | | | | |
| County Billing | Colln. | 65.0 | .10 | 6.5 |
| Driver's Licenses | DMV | 42.0 | .10 | 4.2 |
| Car Registration Renewal | DMV | 150.0 | .10 | 15.0 |
| Subtotal | DMV | 192.0 | .10 | 19.2 |
| Cty Sample Ballots | Voter | 190.0 | .10 | 19.0 |
| Total/Average Checker | | 447.0 | .10 | 44.7 |
| OCR/Bar Code | | | | |
| Traffic ticket notice | Court | 35.0 | .15 | 5.3 |
| Traffic ticket delinquency | Court | 3.0 | .15 | 0.4 |
| Parking ticket notice | Court | 80.0 | .15 | 12.0 |
| Subtotal | Court | 118.0 | .15 | 17.7 |
| Driver's license renewal | DMV | 42.0 | .15 | 6.3 |
| Driver's license delinq. notice | DMV | 8.0 | .15 | 1.2 |
| Car registration renewal | DMV | 150.0 | .15 | 22.5 |
| Car registration delinquency | DMV | 50.0 | .15 | 7.5 |
| Subtotal | DMV | 250.0 | .15 | 37.5 |
| Collections monthly statement | Colln. | 65.0 | .15 | 9.8 |
| Collections delinq. notice | Colln. | 30.0 | .15 | 4.5 |
| Subtotal | Colln. | 95.0 | .15 | 14.3 |
| Property tax notice | P.TX | 145.0 | .15 | 21.8 |
| Property tax delinquency notice | P.TX | 15.0 | .15 | 2.3 |
| Subtotal | P.TX | 160.0 | .15 | 24.1 |
| Employee wage report | EDD | 20.0 | .15 | 3.0 |
| Social Service status report | S SV | 100.0 | .15 | 15.0 |
| Income tax return | TAX | 100.0 | .15 | 15.0 |
| Voter reg'n. absentee ballot | Voter | 16.0 | .15 | 2.4 |
| Sales tax return | EQZ | 50.0 | .15 | 7.5 |
| Total/Average OCR | | 909.0 | .15 | 136.4 |
| Total Enhanced | | | | 181.1 |

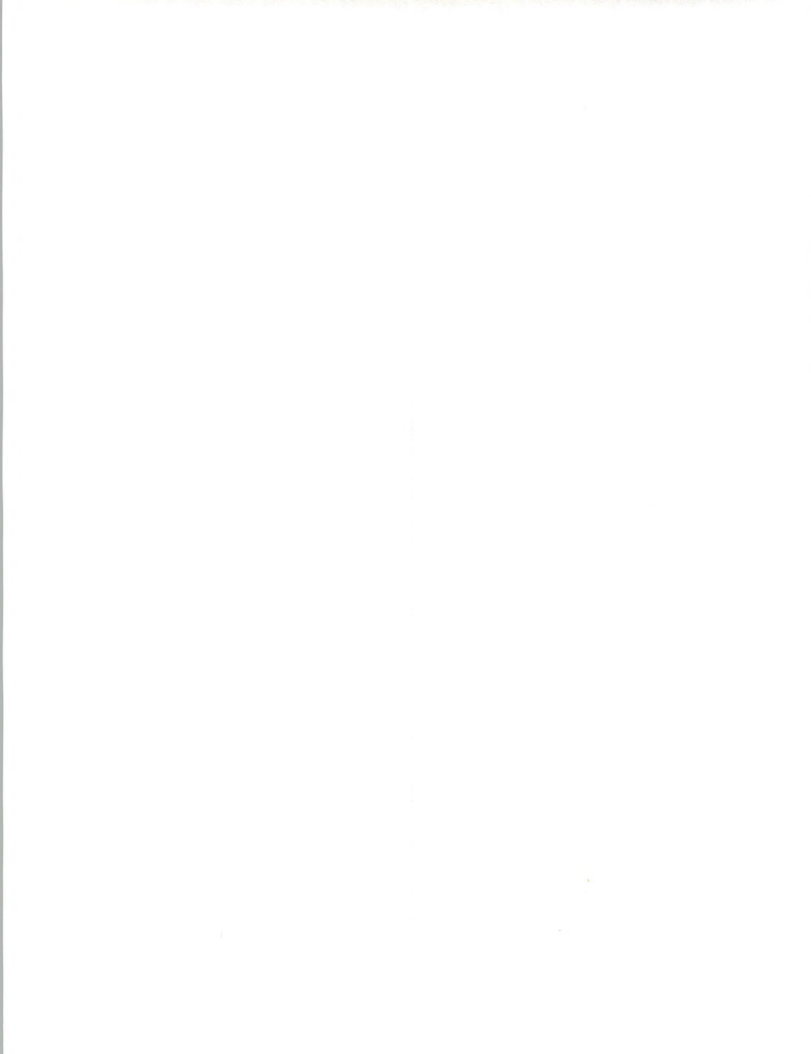


EXHIBIT III-15

**State and Local Government:
Relative Attractiveness Ratings of Basic
State Government Services Opportunities**

| Application Opportunity (\$ Millions) | | | | | Criteria Ratings 1=negative; 5=positive | | |
|---------------------------------------|---------|---------|----------|---------------|--------------------------------------------|---------------|-----------------------|
| Department | # (MMs) | \$/Unit | \$ (MMs) | Relative Size | Willing to Outsource | Level of Pain | Attractiveness Rating |
| Department of Revenue | | | | | | | |
| - Income tax return | 100 | .39 | 39.0 | | | | |
| - Delinquency notice | 20 | .22 | 4.4 | | | | |
| Subtotal | 120 | | 43.4 | 1 | 1 | 1 | 1 |
| Employment Dev. Dept. | | | | | | | |
| - Qrtly. contrib'n. rept. | 20 | 1.00 | 20.0 | | | | |
| - Delinquency notice | 3 | .22 | 0.7 | | | | |
| - Monthly deposit forms | 30 | .76 | 22.8 | | | | |
| - Unempl/disab. checks | 90 | .20 | 18.0 | | | | |
| Subtotal | 143 | | 61.5 | 1 | 1 | 1 | 1 |
| Board of Equalization | | | | | | | |
| - Sales tax return | 50 | .50* | 25.0 | | | | |
| - Delinquency notice | 10 | .37 | 3.3 | | | | |
| Subtotal | 60 | | 28.3 | 1 | 1 | 1 | 1 |
| Motor Vehicles | | | | | | | |
| - Driver's lic. renewal | 42 | .39** | 16.4 | | | | |
| - Driver's lic. delinq. not. | 8 | .22 | 1.8 | | | | |
| - Car reg'n. renewal | 150 | .39 | 58.5 | | | | |
| - Car reg'n. delinq. notice | 50 | .22 | 11.0 | | | | |
| - Ownership certificate | 50 | .25 | 12.5 | | | | |
| - Suspension notice | 11 | .15 | 1.7 | | | | |
| Subtotal | 311 | | 101.9 | 2 | 1 | 1 | 2 |
| Controller's Office | | | | | | | |
| - Variety of checks | 335 | .20 | 67.0 | | | | |
| Subtotal | 335 | | 67.0 | 1 | 1 | 1 | 1 |
| Total | 969 | | 302.1 | | | | 6 |

* Sales tax return judged to be "half" as complex as employer quarterly contribution report

** Car registration renewal form judged to be comparable to driver's license renewal forms

EXHIBIT III-16

**State and Local Government:
Relative Attractiveness Ratings of Basic
Local Government Services Opportunities**

| Application Opportunity (\$ Millions) | | | | | Criteria Ratings 1=negative; 5=positive | | |
|---------------------------------------|---------|---------|----------|---------------|--------------------------------------------|---------------|-----------------------|
| Department | # (MMs) | \$/Unit | \$ (MMs) | Relative Size | Willing to Outsource | Level of Pain | Attractiveness Rating |
| Property Taxes | | | | | | | |
| - Appraisal notice | 145 | .39 | 56.5 | | | | |
| - Property tax statement | 100 | .53 | 47.7 | | | | |
| - Delinquency notices | 15 | .20 | 2.6 | | | | |
| Subtotal | 260 | | 106.8 | 2 | 1 | 1 | 2 |
| Traffic Citations | | | | | | | |
| - Courtesy notice | 35 | .20 | 6.4 | | | | |
| - Delinquency notices | 3 | .20 | 0.6 | | | | |
| - Parking ticket notice | 80 | .20 | 16.0 | | | | |
| Subtotal | 118 | | 22.4 | 1 | 4 | 3 | 12 |
| Social Services | | | | | | | |
| - Benefit checks | 100 | .20 | 20.0 | | | | |
| Subtotal | 100 | | 20.0 | 1 | 2 | 2 | 4 |
| Collections | | | | | | | |
| - Monthly statement | 65 | .76* | 49.4 | | | | |
| - Delinquency notices | 30 | .20 | 6.0 | | | | |
| Subtotal | 95 | | 55.4 | 1 | 4 | 2 | 8 |
| Voter Registration | | | | | | | |
| - Sample ballot | 190 | .75** | 142.5 | | | | |
| - Absentee ballot | 16 | .75** | 12.0 | | | | |
| Subtotal | 206 | | 154.5 | 2 | 2 | 1 | 4 |
| Total | 779 | | 359.1 | | | | 30 |

* Monthly collections statements judged to be comparable to employer quarterly contribution report in Exhibit III-15

** Sample and absentee ballot forms judged to be comparable in length to insurance policies, but containing fewer variable data

INPUT uses a standard rating methodology to balance the opportunity size previously calculated with two other key criteria extracted from the interviews: respondents' willingness to contract operations and their "level of pain" or perception of problems, each with respect to a particular application.

A five-point rating scale was applied to each criterion where "1" indicates a response that is least attractive and a "5" indicates a most attractive response.

Relative size ratings were determined based on the scale below. The rationale for applying this scale to the size of the application is that an application opportunity is not of strategic interest unless its size is in excess of \$50 million. If it is assumed that Moore IDS could capture 10% of the latent potential, a \$50 million opportunity would actually represent only \$5 million per year in Moore IDS revenue. In similar fashion, any opportunity worth over \$1 billion (rating = 5) would be strategically significant to Moore IDS.

| <u># Mailings (in millions)</u> | <u>Rating</u> |
|-------------------------------------|---------------|
| 1-99 | 1 |
| 100-299 | 2 |
| 300-699 | 3 |
| 700-999 | 4 |
| 1,000+ | 5 |

The final column in Exhibits III-15 and III-16, attractiveness rating, was derived from the formula:

$$\text{relative size} \times \text{willingness to outsource} \times \text{level of pain/problem} = \text{attractiveness rating}$$

The product of this formula represents the attractiveness of each application to Moore IDS. Please note an important implication of this methodology. While the highest relative rating possible is 125 (5 x 5 x 5), three moderate ratings of 3 each yields a product of only 27. This is clearly not 50% of the top rating of 125. Therefore, opportunities which are totally positive to Moore IDS' interests on all three scales are far superior to opportunities which are only moderately positive on all scales.

The four state and local government departments that had the highest attractiveness ratings were

- Municipal Court (12 points)
- Collections (8 points)
- Voter Registration Department (4 points)
- Social Services Department (4 points)

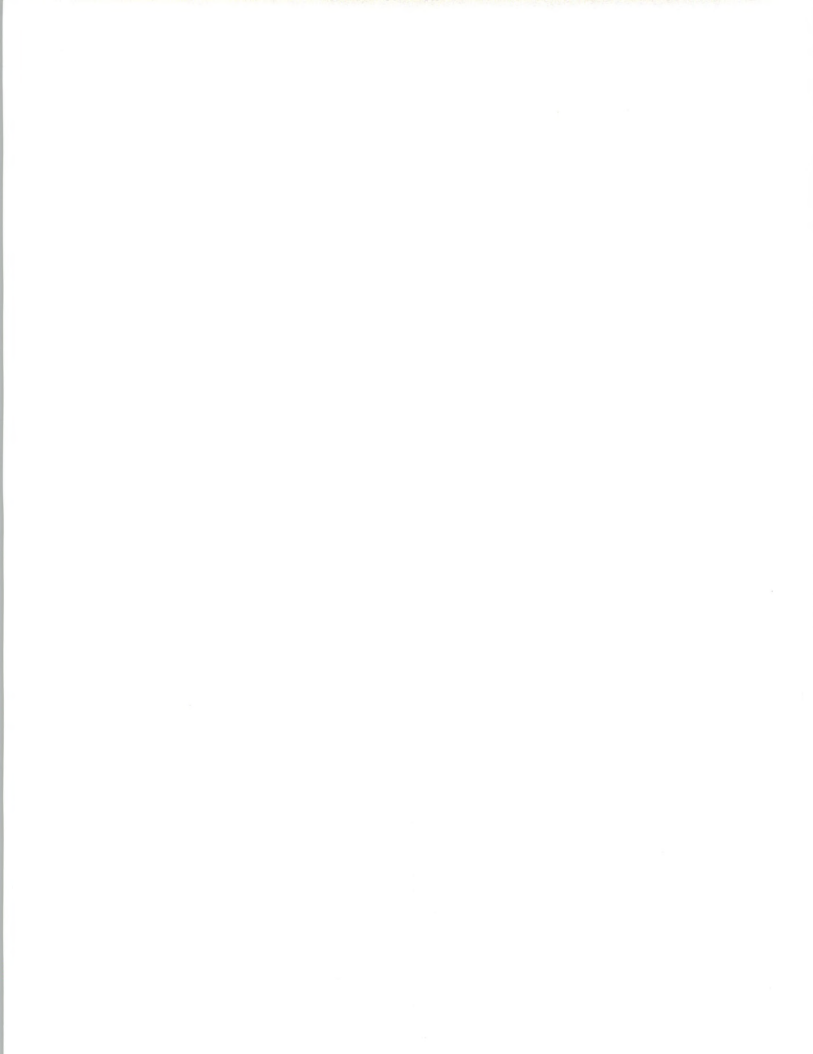
However, these opportunities were not as attractive as it first appears for several reasons.

First, the applications in the local government department which had the highest attractiveness point rating represents only a \$23-million market. The applications proved attractive because this department was very willing to outsource and felt a moderate level of pain. When first asked open-ended questions, the responses were no more favorable than those received for other departments. However, when asked, "Would you contract out the task of collecting overdue fines to an independent company if there was no front-end investment and if you would receive half of the additional proceeds?", the respondents enthusiastically answered yes.

The next most favorable application was in the collections department of local governments. The central task of the Collections Department is to collect overdue fees from clients who haven't paid their bills to other county agencies, such as the county hospital. Here again, the response to an open-ended question about outsourcing tasks was not very favorable. When asked the same question as that posed to the municipal court officials, the respondent was much more enthusiastic. However, because 80% of fees are collected from the department that originally provided the service, the Collections Department only handles the 20% very overdue bills from various agencies. Of these bills, the Collections Department successfully collects between 60 and 70%. Therefore, the portion they will contract to a vendor may be smaller than is economically viable to accept the assignment.

The third-most favorable application, sample ballots in the Voter Registration Department, was eliminated from consideration because it contains very little variable data and could more accurately be considered a commodity which involves primarily printing. This would not be an attractive opportunity for Moore IDS.

Finally, the Social Service Departments' major application is disbursing checks. The respondent was willing to outsource this task through an *existing* automatic teller machine network. So, although there was a willingness to outsource, it is not immediately obvious how Moore IDS could provide a service between the government department and a local bank.



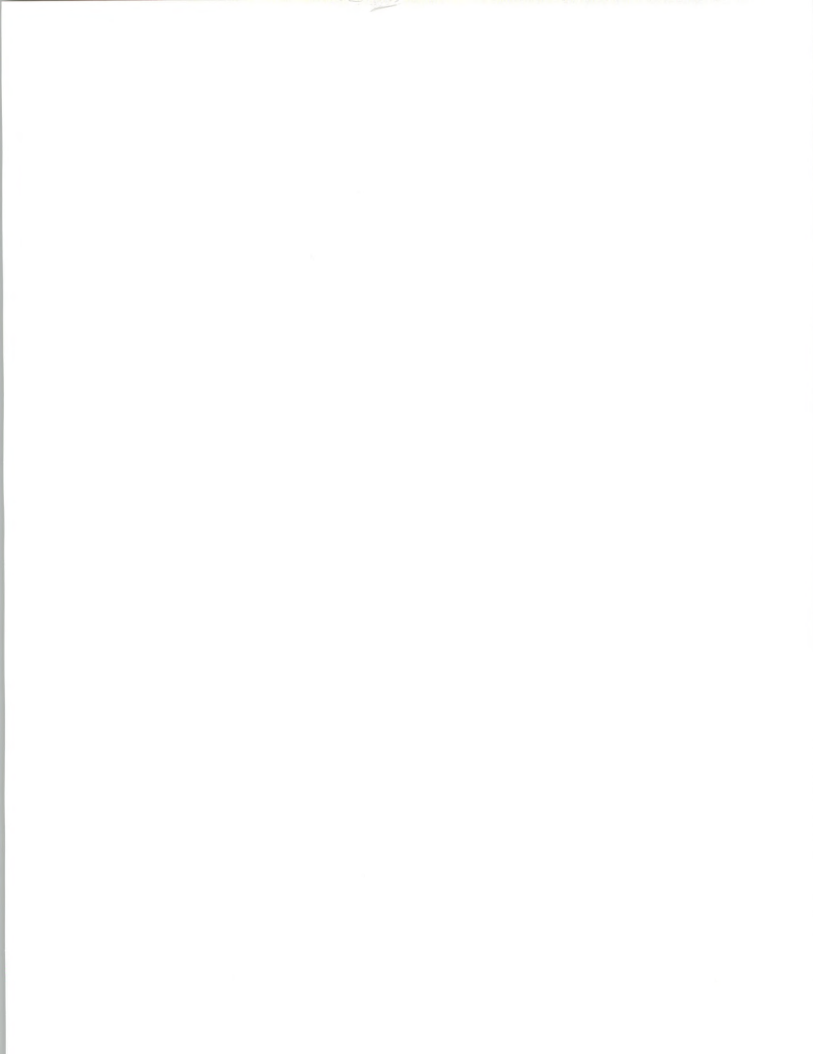
2. Opportunity Sizing and Ratings for Enhanced Services

Turning now to the enhanced services suggested by respondents, many of the services do not represent opportunities for Moore IDS for a variety of reasons (see Exhibit III-17). In some cases, the transactions are internal point-to-point with no need for a third party (remote terminal on-line data bases, bulk data transmissions, interdepartmental data bases, ATMs used to distribute benefits). In some cases, the volume of a new service would be minimal (on-line access to private information).

EXHIBIT III-17

State and Local Government: Enhanced Services Mentioned by Respondents Which Are Inappropriate Opportunities for Moore IDS

| Enhanced Service | Specific Application |
|-------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Remote terminals with on-line data bases | Installing terminals at each branch office of Motor Vehicle Department to enter new data and access existing data bases in real time |
| Bulk data transmissions | Receive employers' quarterly wage and benefit reports from the largest state employers |
| Interdepartmental data base links | Check outstanding state and local traffic citations before issuing state driver's license Check current income before determining unemployment, disability, job training, or welfare benefits |
| ATMs and POSs used to distribute benefits | County social services department, in conjunction with local banks, distributes checks through ATM network |
| On-line telephone access to private information | Consumers check amount owed to county collection agency |
| On-line telephone access to public information | Lawyers, title companies, and banks check appraisal and personal property information |



Respondents requested two enhanced services that may provide opportunities for Moore IDS in this market (see Exhibit III-18).

First, the addition of an address checking capability was mentioned by multiple state and local government agencies. There are currently at least four companies with an entrenched position in this market. This may prove to be a viable opportunity for acquisition for Moore IDS if it can be leveraged in other vertical markets.

Second, OCR and bar codes may represent an opportunity for Moore IDS in the state and local government market. Currently, these systems are installed in 6 of the 19 respondents' operations, with 6 additional respondents studying or implementing the option.

EXHIBIT III-18

**State and Local Government:
Enhanced Services Opportunities for Moore IDS
(Mentioned by Respondents)**

| Enhanced Service | Specific Application |
|------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Address checker billing notices | Check current address before mailing county Check current address before mailing sample ballot Check current address before mailing driver's license renewal or car registration renewal forms |
| OCR or bar code | Code incoming mail to sort and route it to the appropriate department Code incoming documents to assist in tracking them through the system |

As in Exhibits III-15 and III-16 for basic opportunities, INPUT used a standard rating methodology for enhanced opportunities to factor the opportunity size calculated in Exhibit III-19 with two other key criteria: agencies' willingness to contract for services and their level of pain, for each application.

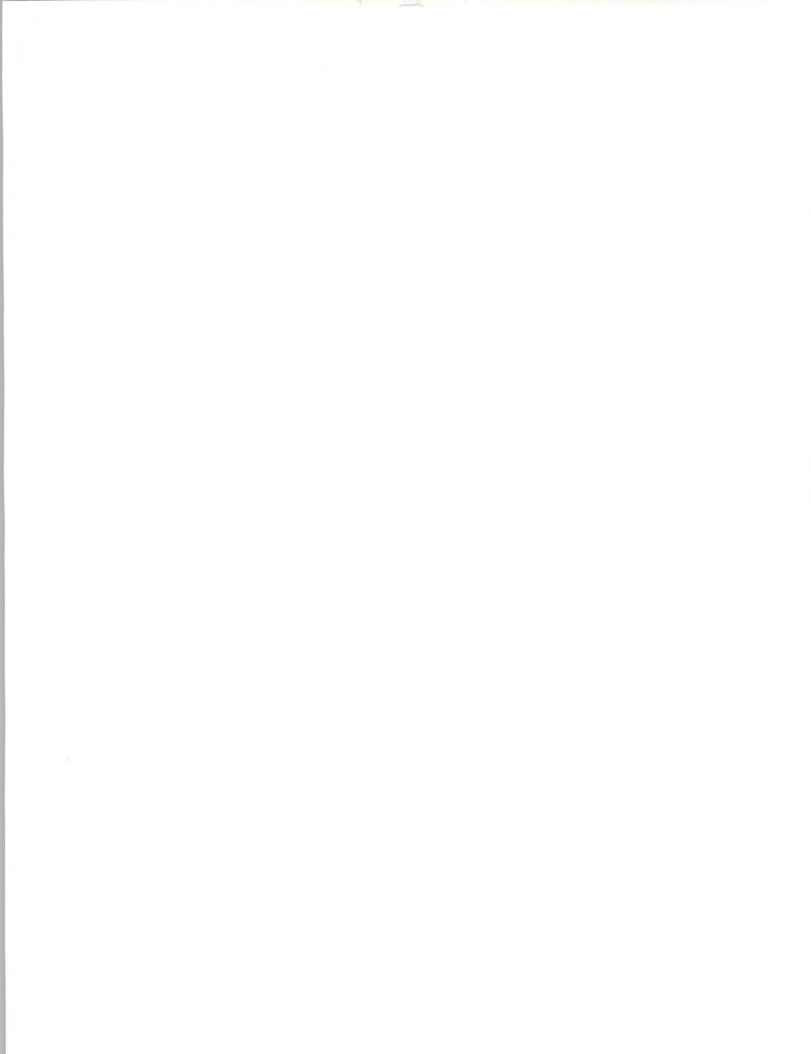


EXHIBIT III-19

State and Local Governments: Relative Attractiveness Ratings of Enhanced Services Opportunities

| Application Opportunity (\$ Millions) | | | Criteria Ratings 1=negative; 5=positive | | | |
|---------------------------------------|------------|--------------|--------------------------------------------|----------------------|---------------|-----------------------|
| Enhanced Services | Department | \$ Size | Relative Size | Willing to Outsource | Level of Pain | Attractiveness Rating |
| Address Checker* | | | | | | |
| County billing | Colln. | 6.5 | 1 | 4 | 4 | 16 |
| Driver's licenses | DMV | 4.2 | | | | |
| Car registration renewal | DMV | 15.0 | | | | |
| Subtotal | DMV | 19.2 | 1 | 4 | 4 | 16 |
| Cty. sample ballots | Voter | 19.0 | 1 | 3 | 3 | 9 |
| Total/Average Checker | | 44.7 | 1 | 3.5 | 3.5 | 12 |
| OCR/Bar Code** | | | | | | |
| Traffic ticket notice | Court | 5.3 | | | | |
| Traffic ticket delinquency | Court | 0.4 | | | | |
| Parking ticket notice | Court | 12.0 | | | | |
| Subtotal | Court | 17.7 | 1 | 3 | 3 | 9 |
| Driver's license renewal | DMV | 6.3 | | | | |
| Driver's license delinq. not. | DMV | 1.2 | | | | |
| Car registration renewal | DMV | 22.5 | | | | |
| Car registration delinq. | DMV | 7.5 | | | | |
| Subtotal | DMV | 37.5 | 1 | 2 | 2 | 4 |
| Coll'ns. monthly statement | Colln. | 9.8 | | | | |
| Coll'ns. delinquency notice | Colln. | 4.5 | | | | |
| Subtotal | Colln. | 14.3 | 1 | 2 | 2 | 4 |
| Property tax notice | P.TX | 30.0 | | | | |
| Prop. tax delinquency notice | P.TX | 2.3 | | | | |
| Subtotal | P.TX | 32.3 | 1 | 2 | 2 | 4 |
| Employee wage report | EDD | 12.0 | 1 | 2 | 2 | 4 |
| Social Service status report | S SV | 15.0 | 1 | 2 | 1 | 2 |
| Income tax return | TAX | 15.0 | 1 | 1 | 2 | 2 |
| Voter registration abs. ballot | Voter | 2.4 | 1 | 2 | 1 | 2 |
| Sales tax return | EQZ | 30.0 | 1 | 1 | 1 | 1 |
| Total/Average OCR | | 173.8 | 2 | 2 | 2 | 8 |
| Total Enhanced | | 218.5 | | | | 20 |

* Assumptions: \$.10 per address check; each address is automatically checked before document is mailed

** Assumptions: \$.15 per bar code; each application in Exhibits III-5 and III-6 which lists "return envelope" in characteristics column is included here

Exhibit III-19 shows that when the market for a single enhanced service is derived by summing demand for multiple government departments, the total market attractiveness is smaller than the sum of the pieces. This is due to the influence of the size rating scale. If other government departments are polled, there is no doubt that additional clients may be interested which would further increase the state and local government market for these enhanced services. However, INPUT feels that the methodology followed to this point has flushed out the major components of demand in the state and local government sector.

The respondents tried to give shape to their fantasies. Even if they could not create a specific solution, at least half (10 of 19) mentioned the inevitability of three trends:

- Making government services more accessible to the taxpayers
- Providing better and more consumer-oriented vehicles for delivering services
- Using technology to a greater extent

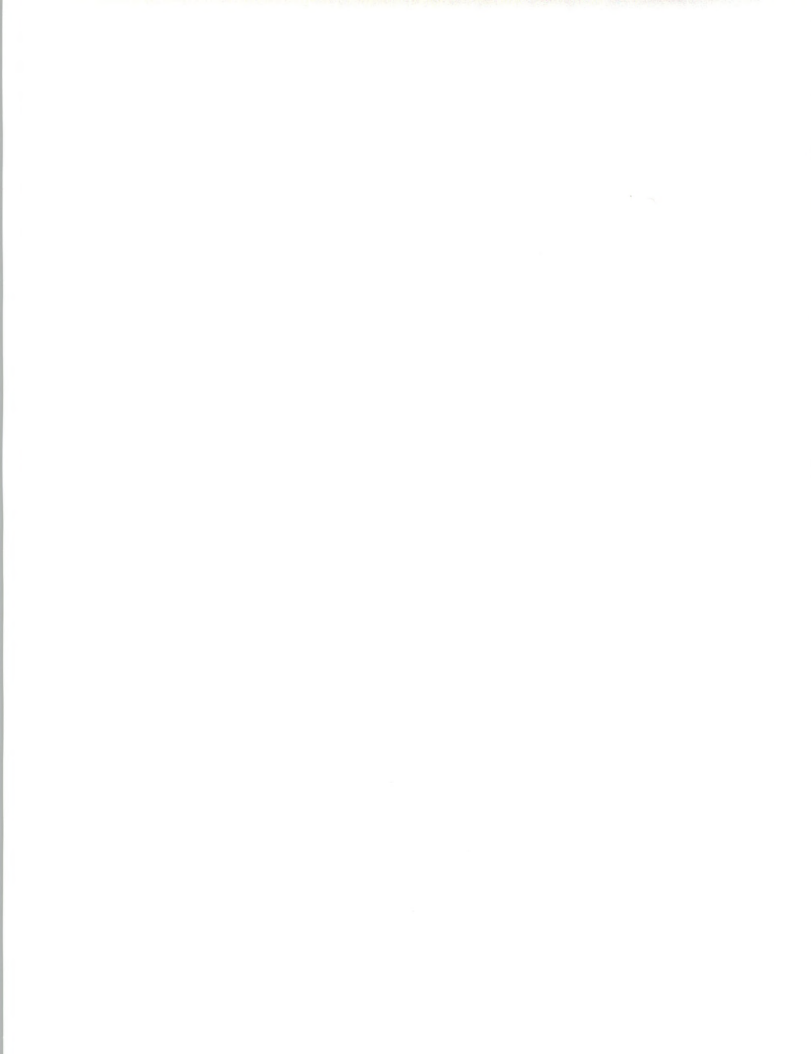
With these factors in mind, INPUT created a hypothetical application based upon parts of interviews and currently operating, publicly available systems in California. INPUT attempted to test whether there would be sufficient potential in even one application—admittedly futuristic—which Moore IDS could pursue. The scenario is described below and in Exhibit III-20.

EXHIBIT III-20

**State and Local Government:
Hypothetical County Public Information System**

| Cost Elements | \$ Cost |
|-------------------------------------------|------------------|
| Kiosks 10 @ \$5K | 50,000 |
| Mainframe hardware (AS400) | 250,000 |
| Central and 10 application software | 200,000 |
| Project management and integration design | 300,000* |
| Promotional program | 50,000 |
| Five-year maintenance (present value) | 250,000 |
| Total | 1,100,000 |

* Represents fee to Moore IDS for implementation of system



The hypothetical county public information system would consist of a mainframe computer, through which 10 different local, state and federal agencies could provide information to the public either in their homes or at centrally located kiosks (shopping center or mall, city hall, central gathering place). Some applications might include:

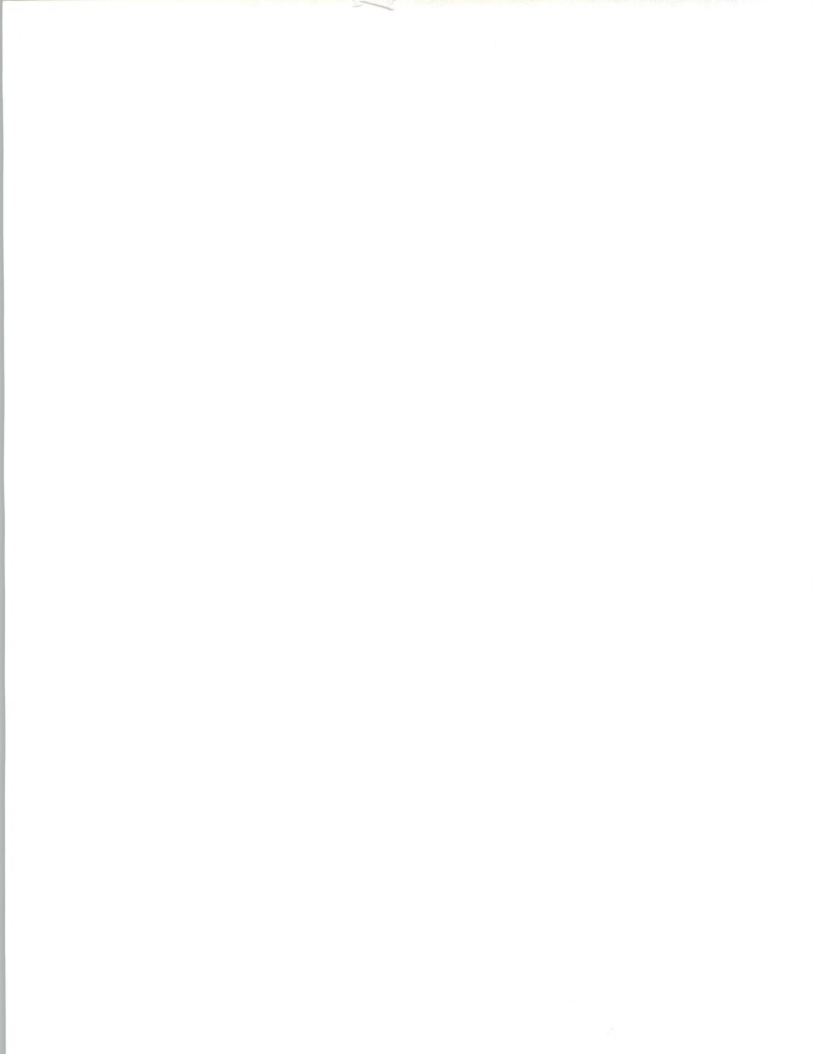
Government Functions

- On-line card catalog of public library system
- Eligibility requirements for obtaining professional licenses
- Local, state, or national data base of employment opportunities
- Referral services for the disabled
- Youth services
- Eligibility for low-income housing and apartment availability
- Public transportation routes and fares
- Social services eligibility requirements
- Social services status reports
- Food stamp information
- Zip code information
- Unemployment insurance status reports
- Zoning information (map of residential, commercial, industrial zones)
- Carpool matching service (visually shows map of pick-up and drop-off points)
- Log of pending and recently passed legislation
- Better business bureau list of complaints lodged against local businesses
- Calendar of events, classes and instruction, clubs, activities and points of interest sponsored by jurisdiction
- Checklist for newcomers (auto requirements, school information, utilities, public services available)

Commercial Functions

- Airline schedules (visually shows seating location)
- Restaurant menus
- On-line yellow pages
- Child care facilities and availability
- Entertainment and theater ticket purchase (visually shows seating location)

The price tag of \$1.1 million could be daunting to all but the largest (over 1,000,000 population) cities and counties. INPUT assumes that commercial applications will subsidize half the initial cost of the system and thus open the opportunity to jurisdictions with as few as 250,000 population. There are 61 cities and 167 counties, or 228 jurisdictions in that category.



In order to test the feasibility of this proposed system, let us assume that a reasonable return for the risk and the effort is \$50 million. In order to achieve that level of sales, 167 jurisdictions, or 73% of the universe of potential clients would need to purchase the system over a five-year period. INPUT feels this assumption is improbable. Even if a \$25-million threshold were adopted, 47% of the universe of clients would need to purchase a system—still a dubious assumption. So even in this Buck Rogers scenario, the volume does not appear to be sufficient to pursue this option.

D

Recommendations

INPUT offers a brief recommendation and some caveats for Moore IDS' attention and action.

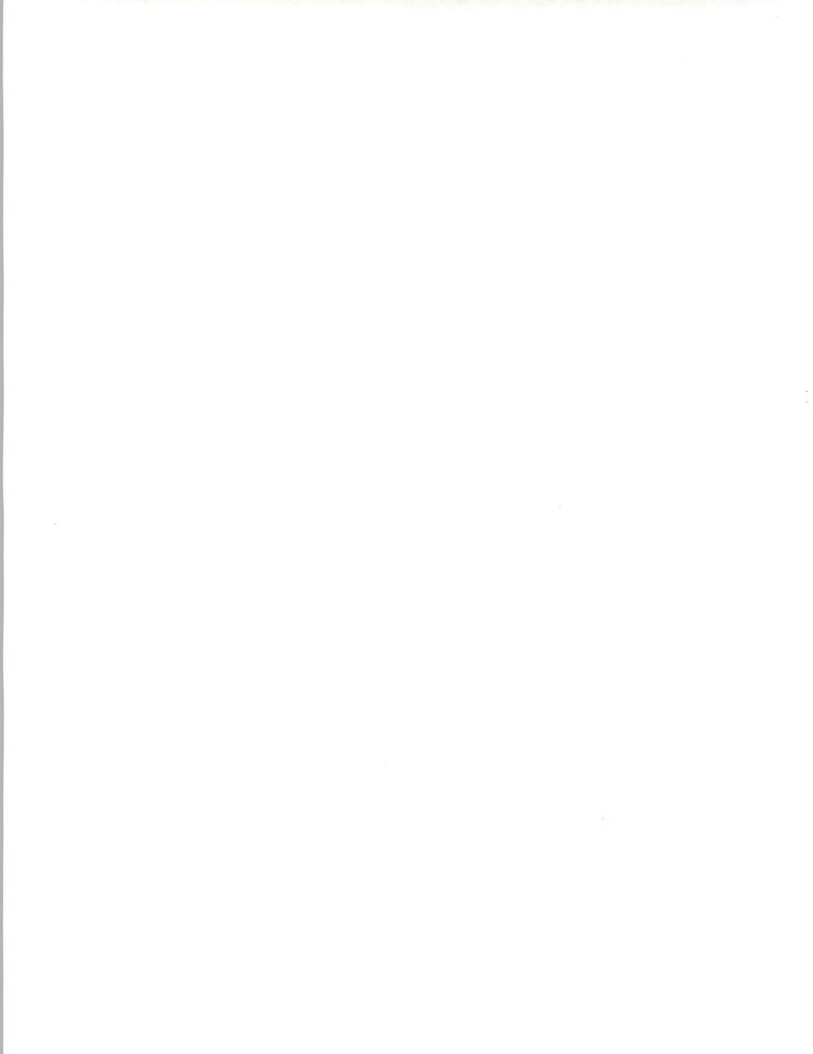


EXHIBIT III-21

State and Local Government: Recommendations for Basic and Enhanced Services Opportunities

Basic Services

- Unless Moore IDS can sell services for more than one application to a single government department, **the fragmented basic services market will be frustrating to address.**

Of the four applications over \$50 million in size,

- Two marginal applications had very negative "willing to contract" and "level of pain" ratings (the Controller's Office disbursements (checks), \$67 million; and Motor Vehicle Department car registration renewals, \$59 million)
- One application (voter registration sample ballots, \$143 million) has very little variable data, is a commodity printing job, and would therefore, not be of interest to Moore IDS
- One application (property tax appraisal notice) met the requirements (\$57 million)

Enhanced Services

- The demand for enhanced services in the state and local government market is also highly fragmented.
- As was the case with basic services, one enhanced service—OCR/bar code—reached \$50 million in size only when applications for different government agencies were combined.

2



IV

Implementing Enhanced Services: Sales/Delivery Mechanisms Required





Implementing Enhanced Services: Sales/Delivery Mechanisms Required

Some new sales and delivery mechanisms will be needed for Moore IDS to offer enhanced services.

EXHIBIT IV-1

State and Local Government: New Sales and Delivery Mechanisms Required

| Opportunity | Sales Expertise | Printing Equipment | Information Technology | Alliances or Acquisitions |
|-----------------|-------------------------|--------------------|--------------------------|----------------------------------------------|
| OCR/bar code | Bar code filing systems | None | Imaging data to bar code | Bar code filing vendor |
| Address checker | Service bureau | None | On-line data base | National address correction data base vendor |

A

Sales Requirements

To the extent that new technologies such as bar coding and on-line data bases are required to sell enhanced services, sales reps will require technical training and understanding of the dynamics of service bureau sales and customer service.



B**Printing and Mailing
Equipment Required**

INPUT identifies no need for new printing and mailing equipment types to implement either of the enhanced service opportunities.

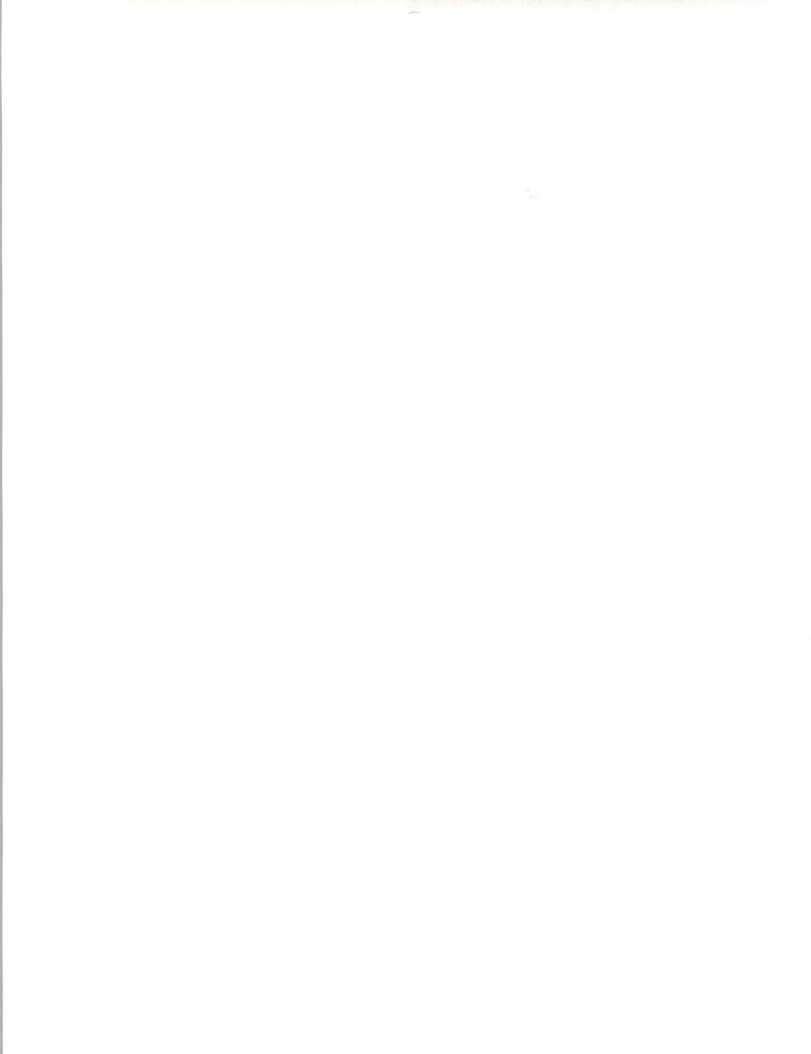
C**Information Services
Technologies
Required**

In most cases the information services technologies required are specific to the technical base of each enhanced service opportunity. The only generalized new information service technology that Moore IDS needs is expanded electronic data transfer technology that would permit government officials to transmit data and instructions through daily electronic communications.

D**Potential Alliances/
Acquisitions**

A number of firms are potential allies or acquisition candidates. Foremost among them are the companies that contract with the U.S. Postal Service to make available the changes of address that customers file with the Post Office.

A second type of suggested alliance is closer to home. The transmission of data regarding real estate and property assessment, property characteristics, sales data, and property taxes is already being undertaken by Moore DMS in Minneapolis.





Other Observations





Other Observations

A

Data Processing and Information Services Issues

There are over 200,000 equipment sites in state and local government agencies with a wide range of information systems—from archaic, 1960s-vintage equipment to the latest sophisticated, on-line mainframe and supercomputer systems using advanced systems and software.

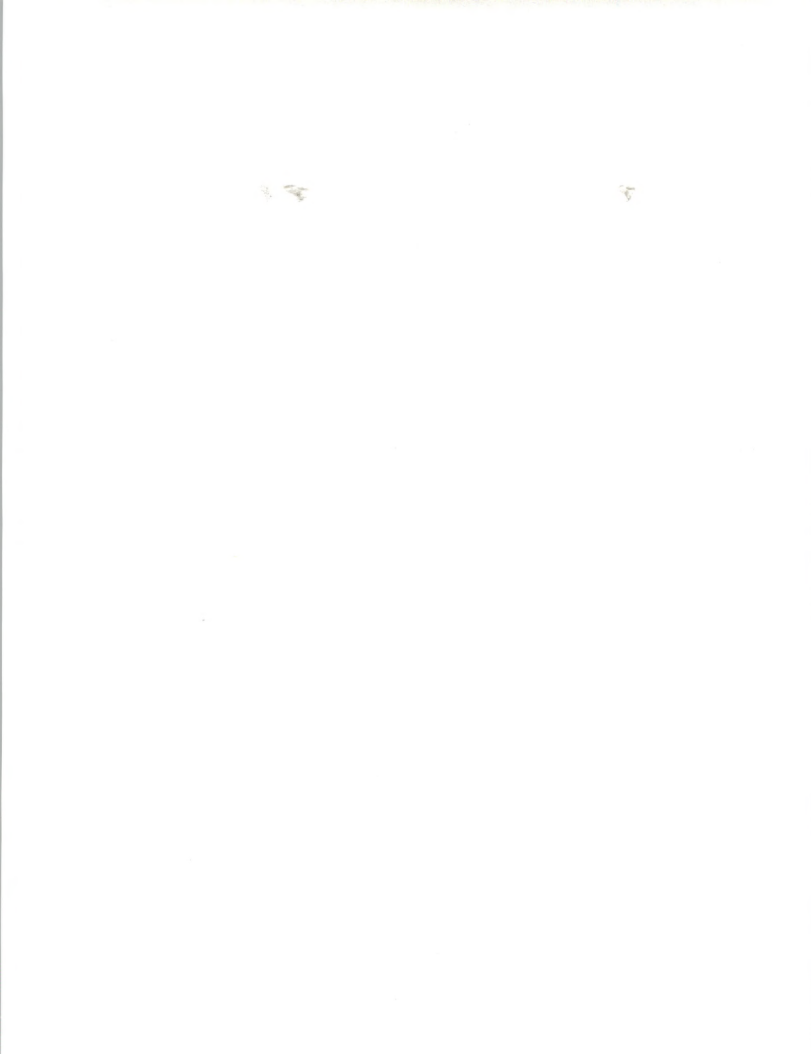
The commercial sector has outpaced the development of information services in the state and local government sector due, in part, to budget limitations. This technology lag has also resulted from the historical lack of competitive impetus generated by free-market forces.

Government is increasingly being run with some of the characteristics of a for-profit business—with accountability for productivity and efficiencies of operation. Rather than running up huge backlogs, five-year plans are common for anticipating and handling increased workload.

Public interest in human resource applications—such as the homeless, substance abusers, and AIDS patients—have driven activity in this key application area. On-line claims and eligibility processing have increased dramatically. Interest has mounted as a result of the desire to limit fraud and provide better service.

Currently, there is almost a renaissance among state and local governments of installing more accessible on-line systems that will provide faster and better response to their constituents' needs.

This trend has produced a notable increase in in-house capabilities to run new systems, develop networks, install data base management systems, develop office automation systems, and conduct planning studies. The new breed of data processing and information systems managers are more business-oriented and technologically competent than their predecessors.



These officials are demanding the ability to make inquiries, manipulate stored data, and communicate between government departments. The use of new technologies such as networks, relational data management, voice response, and bulk data transmission is viewed as important in meeting service requirements. Unfortunately, not all system users are as sophisticated; the installation of complex systems is hampered by the inexperience of staff members. Special training is still a major factor in successful implementation.

Although there are hopeful signs in this market, a major deterrent to implementing new systems is the confusion over the organizational responsibility that users, officials, and information system management play, particularly when more than one department is involved.

B**Environmental
Threats and
Opportunities**

A number of current trends have been identified, as shown in Exhibit V-1.

Each trend in Exhibit V-1 could be classified as a threat or an opportunity for increasing the amount of work contracted to vendors. The determination of which label to apply to each trend was based upon the interviewees' responses. When respondents cited "recent purchase of new equipment" as the reason for NOT contracting business mailing functions, the response was classified in the "threat" category. When respondents mentioned they would consider contracting business in the future because they were being overwhelmed with greatly increased volumes, "greater public interest in human resource applications" was classified as an opportunity.



EXHIBIT V-1

State and Local Government: Environmental Threats and Opportunities

Threats

State and local governments investing heavily in replacing archaic systems with improved in-house system capabilities

More proficient, technically knowledgeable, business-oriented data processing managers are more capable of running automated processes in-house

Agencies are increasingly sensitive about releasing confidential data in order to limit fraud and to avoid right-to-privacy lawsuits

Opportunities

Public interest in human resource applications—such as the homeless, substance abusers, and AIDS patients—is dramatically increasing on-line claims and eligibility processing

Objective criteria (cost, efficiency, quality) are being applied to in-house/contracting-out decisions

Agencies are becoming more consumer-oriented; they are being driven by constituents' needs and striving to deliver services more efficiently and more conveniently

Agency officials are demanding increasing system capabilities: the ability to make inquiries, manipulate stored data, and communicate between government departments

The feasibility of using new technologies—such as networks, relational data management, voice response, and bulk data transmission—is increasing

Computer and technology sophistication is not uniform for all staff members. Special training is still required from vendors.

There is confusion over organizational responsibility for implementing interdepartmental systems



C

Nature of the Market

The underpinnings of the state and local government market frustrate its attractiveness. First, the three major factors that determine the size of a viable market opportunity are not favorable, nor are they expected to change in the foreseeable future. The factors are shown in Exhibit V-2.

Second, the willingness to contract the service and the perception of the level of pain or problem were exceptionally low for almost all applications. Of all the questions posed, the willingness to contract services extracted the strongest responses. The interviewer subjectively rated such qualitative factors as the verbatim responses, the tone of voice, and the decibel level at which comments were delivered both absolutely and in relation to responses to other questions.

EXHIBIT V-2

As has been mentioned previously, there is little use by those interviewed

State and Local Government: Market Forces

| Factor | Finding |
|----------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Number of clients | Many applications involved a small portion of the population: e.g., 15% of the DRIVING population gets traffic tickets; 10-15% of the U.S. population are the beneficiaries of the social services system |
| Frequency of service | Many applications were mailed annually or less frequently: e.g., driver's licenses are renewed every four years, income taxes submitted annually |
| Cost of service | Most of the applications were low-cost (under \$.40) |

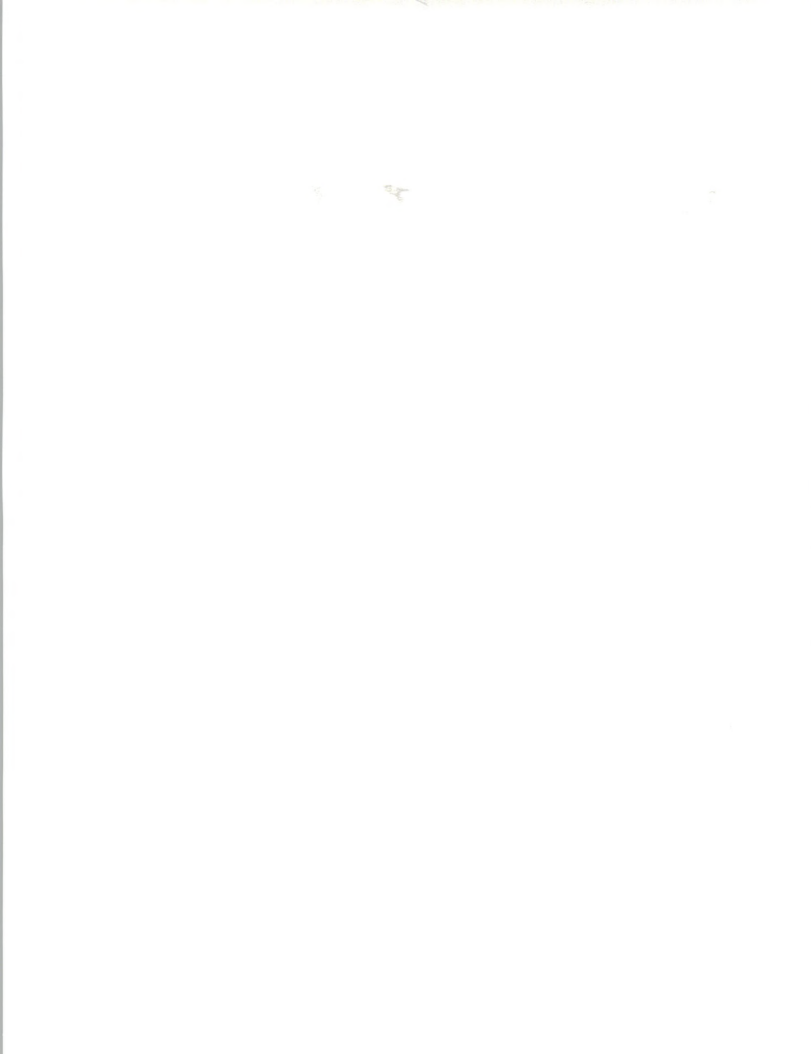
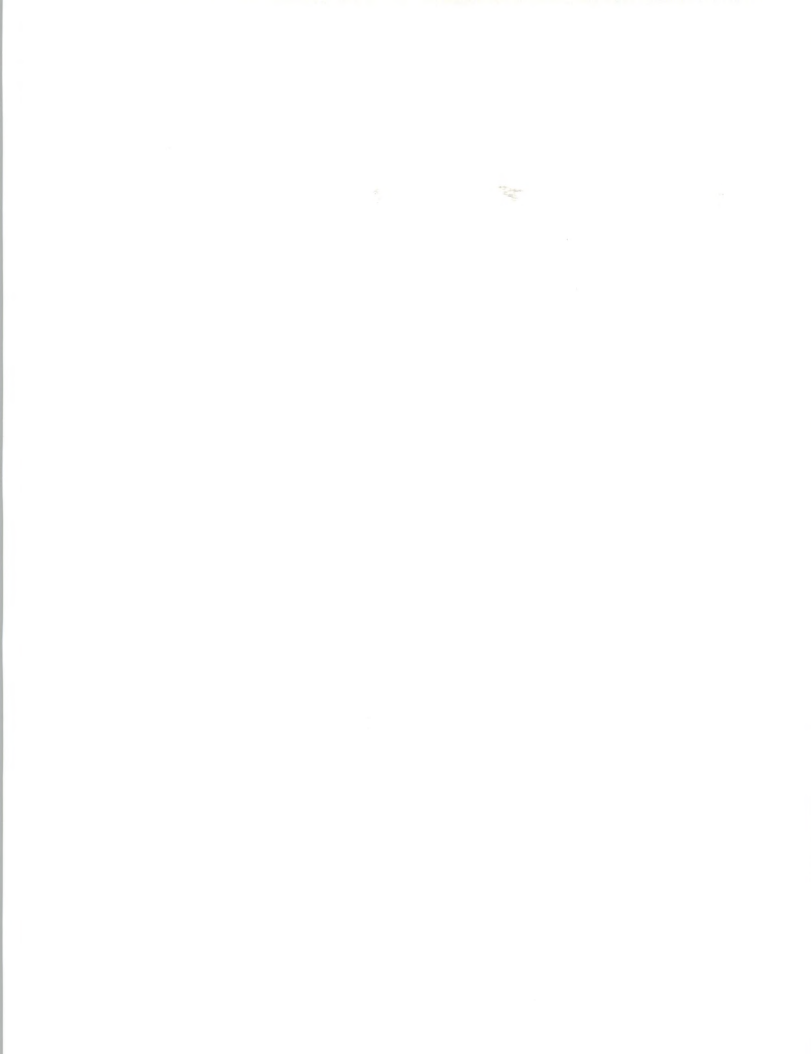


EXHIBIT V-3

**State and Local Government:
Verbatim Responses Regarding Willingness to Contract
and Level of Pain**

| Factor | Response |
|---------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Willingness to contract service | <p>"No way, José."</p> <p>"I just can't imagine any emergency situation which would induce me to contract out these services."</p> <p>"Absolutely not!"</p> <p>"We have a smooth-running system at this point. Period." (signifying the end of the conversation on this topic)</p> <p>"I wouldn't dream of it."</p> <p>"I suppose I can imagine it [contracting] in the event of a nuclear war."</p> <p>"We discussed the possibility [contracting] about eight years ago. We just didn't see the need."</p> <p>"We don't go in for that kind of a thing." Said in a frosty tone.</p> <p>"It could mean the bread line for some dedicated workers."</p> <p>"We just don't need it. We can do it more efficiently, cheaper, and with higher quality."</p> |
| Level of pain | <p>"Problem? No problems here."</p> <p>"Well, we're always looking to improve the operation, but I wouldn't call that a problem" (long pause). "No. I can't think of any [problems]."</p> <p><i>(Most responses were a variation of these 3 answers.)</i></p> |



D**Competition**

As has been mentioned previously, there is little use by those interviewed of outside vendors for their respective applications. The critical competition for Moore IDS, both for basic and enhanced service opportunities, is the in-house organization. All organizations have or are in the process of upgrading variable-image printing to laser printer capabilities, as well as upgrading systems equipment and software and adding automated equipment. Contracting out tasks would undermine the rationale for having made major investments in new equipment.

Some interviewees mentioned that even if their own capabilities could not handle an entire task, they had a second line of backup. They relied on the printing and mailing capabilities of other departments in their jurisdiction. Thus, in the state and local government sector, Moore IDS has **two** competitors: the primary in-house organizations and other in-house organizations.

The only other type of competitors mentioned were local firms that stuffed and sorted the bulk mail.

E**Leverage Potential**

Within the state and local government market, INPUT sees few opportunities to leverage one opportunity into another.

F**Marketing Ideas**

None recommended.

G**Other Application Opportunities**

The one application that survived (barely) the relative ranking cut is assessment and property tax notices. INPUT has previously worked with Moore Data Management Services (MDMS) in Minneapolis. MDMS currently offers various multiple-listing services to the real estate market and related professionals (loan officers, title companies, etc.). One opportunity would be for Moore IDS to team with MDMS in offering and marketing a system called PINPOINT.

PINPOINT is a relational data base of real estate properties sold, including the owners' names, address, real estate property characteristics (location, assessment value, improvements), and sales characteristics (date of sale, sale price). PINPOINT is capable of finding subsets of data entries and sorting the data base by customer specifications. It is also capable of plotting various characteristics on maps to visually and concisely convey the data. A typical request might be to find the most affluent households within a 10-mile radius and sort by zip code. Clients who might be interested in this service include telemarketing operations of direct mail companies and local or national retail chains.

The information in the PINPOINT data base can be further enhanced by combining it with credit data (e.g., from TRW Credit Systems), consumer preferences (opinions, purchasing behavior, and psychographics—e.g., A Nielson Co.), or simply phone numbers (e.g., telephone directory). These combinations would broaden PINPOINT's appeal to many more customers.

The information could be offered in printed form or, more conveniently, on-line.

INPUT feels that the state and local government market may be very interested in purchasing PINPOINT services. First, any agency that has difficulty locating clients who have moved and not informed them may be willing to subscribe to a locating service. Second, readily available credit information might simplify determining whether clients meet benefits eligibility requirements. A color-coded map that distinguishes the population on various criteria can help the jurisdiction serve the needs of a localized community (by opening a branch office where pockets of need exist). PINPOINT might help a jurisdiction plan for services that will be required in five to ten years.

INPUT feels there is potentially a vast market for PINPOINT data. However, the opportunities within the state and local government market would need to be studied in greater depth to realistically quantify the opportunity.



